THE

ECONOMIC JOURNAL

VOLUME XXXVII

THE

ECONOMIC JOURNAL

THE JOURNAL OF

The Royal Economic Society

EDITED BY

J. M. KEYNES and D. H. MACGREGOR

VOLUME XXXVII

REPRINTED 1967 FOR
Wm. DAWSON & SONS LTD., LONDON
WITH THE PERMISSION OF
THE ROYAL ECONOMIC SOCIETY

Originally printed in Great Britain by
Richard Clay & Sons Ltd., London and Bungay, Suffolk
Reprinted in Belgium by Jos. Adam, Brussels

THE ROYAL ECONOMIC SOCIETY.

Correspondents:

Prof. C. R. Fay for Canada
(University of Toronto).

Prof. H. Stanley Jevons for India
(University of Allahabad).

Mr. A. Duckworth for New South Wales
(Australian Mutual Provident Society, Sydney).

Prof. James Hight for New Zealand
(Canterbury College).

Prof. J. A. Schumpeter for Germany.
(University of Bonn).

Prof. E. Mahaim „ Belgium
(University of Liége).

Prof. H. Westergaard for Denmark
(University of Copenhagen).

Prof. Charles Gide for France
(Collège de France).

Prof. A. Andréadès „ Greece
(University of Athens).

Prof. G. W. J. Bruins for Holland

Prof. A. Loria for Italy
(University of Turin).

Mr. Jiuchi Soyeda for Japan
(Industrial Bank of Japan, Tokyo).

Prof. F. Bernis for Spain
(University of Salamanca).

Prof. G. Cassel „ Sweden
(University of Stockholm).

Prof. E. R. A. Seligman for United States
(Columbia University, New York).

The Royal Economic Society (incorporated by Royal Charter, 1902) was founded, under the name of the British Economic Association, at a meeting held at University College, London, on November 20th, 1890, the Right Hon. G. J. Goschen, M.P. (the late Viscount Goschen), in the Chair.

The Society has for its object the general advancement of economic knowledge.

The Journal of the Society, published quarterly by Messrs. Macmillan and Co., Ltd., London, and sent post free to Fellows, is intended to represent the various shades of economic opinion, and to be the organ, not of one school of economists, but of all. The Journal numbers among its contributors the leading economists of all countries. Fellows are entitled, in addition to the Journal, to copies of sundry other publications issued by the Society from time to time.

By arrangement with the London School of Economics, Fellows of the Royal Economic Society may obtain from the Secretary a card entitling them to the use of the library of this institution.

ROYAL ECONOMIC SOCIETY

THE ECONOMIC JOURNAL

MARCH, 1927

THE AUTHORITARIAN ELEMENT IN DISTRIBUTION [1]

IN no department of economic policy was the victory of the principles of *laissez-faire* so complete as in that concerned with the distribution of wealth. Before the eighteenth century the right and the expediency of Government interference were hardly questioned; in the nineteenth century not only the expediency but the morality of any attempt on the part of Governments to determine the distribution of wealth came to be rejected with equal unanimity. The valuation of services, like that of commodities, was left to be determined by the relations of supply and demand in a free market; each was entitled to what he could get, competition being relied on to secure that few or none would get much more or much less than the value of their services to society. In the present century public opinion has changed; *laissez-faire* is discredited, any *a priori* objection to State interference with distribution, or with any other problem of economic organisation, has gone. It might have been expected, therefore, that there would have been a corresponding change of policy, and that Government would actively participate in the fixing of wages and prices, the regulation of profits, and the distribution of wealth generally. There has been a change, but it has not taken the lines of a reversal of *laissez-faire*. It is true that usury laws have been revived; but the new law has no effect, and is not intended to have any effect, on interest and profits in general. Rent Restriction Acts are in force; but they are admittedly an exceptional measure to deal with a war-induced emergency, which it is expected will be temporary. A temporary Profiteering Act was passed as one of the measures needed to ease the transition from war to peace; but again it was a temporary measure, the chief significance of which was that it demonstrated the difficulty in practice of defining a "fair" profit. Trade Boards are a more important innovation; but even these leave the actual fixing of wage

[1] Read before Section F of the British Association at Oxford, August 1926.

rates to representatives of the trade; they involve neither Parliament nor any Government department in the fixing of rates which Government enforces, and are therefore a device for compelling collective bargaining rather than for Government fixing of wages. The central problem of distribution—the determination of wages, salaries, interest and profits—is still left to private contract without Government interference. On a superficial view it might seem there has been no change in the present century; actually an unnoticed revolution has come about, the chief features and stages of which I wish to distinguish.

The determination of economic relations, and therefore of the distribution of wealth, by free private contracts between individuals, which is the essential element in *laissez-faire*, was not unqualified even when the principles of that policy commanded their greatest authority. Government did interfere in at least three ways: it regulated the form and conditions, if not the amount of wages; it provided public relief outside the system of commercial incomes; and it modified the actual distribution of income by taxation. The necessity of interference under all these heads was generally recognised even in the middle of the nineteenth century; but the dominant public opinion was in favour of restricting it to the narrowest possible limits. Thus regulations such as the Truck Acts and the Particulars Clause of the Factory Act were directed, not to influencing the magnitude of wage rates, but simply to ensuring that the worker got the full amount of any rate agreed on; it was not until 1909 that the State interfered even indirectly with the amount of wages. Similarly, public relief was given in a form and under conditions that were designed to deter the poor from applying for it; and taxation was levied in accordance with the maxim that taxation should be for revenue only. These limits have gradually been relaxed; the regulation of wages has been extended from the conditions to the amount of the wage; public relief has increased and been diversified; taxation has reached amounts that were not dreamt of a generation ago, and its incidence has been altered in order to lessen the inequality of income which resulted from a policy of *laissez-faire* in relation to the commercial distribution. Government participation, therefore, which was a negligible influence in the distribution of wealth fifty years ago, has become a considerable and very important influence to-day.

This change from Victorian *laissez-faire* to the present system

of distribution, whatever name we like to give it, has been a continuous process, so gradual that its significance was hardly noticed until the war came and suddenly accentuated it. It is, however, I think, possible to date the turning-point in the transition. I should put it in the period 1906–1914; and I should relate the changes brought about in that period to the check to the rise in real wages that marked the preceding decade.

Sir Josiah Stamp has summarised the movement of wages and other incomes in the nineteenth century. Real incomes increased on an average fourfold; but the most significant change was a steady movement of the population from lower to higher income classes, which left the proportionate distribution of income between classes much the same. "The total nominal income has increased," he says, "much more than the total population—the increase has surged up through all the fixed classes, so that there is a smaller population in the ranks of the poorest, with a nominal income of, say, under £80 a year, and many more in the over £5000 class, but the *slope* of distribution, *i.e.* the relation between one section or class and another, has hardly altered." It would appear that wealth increased and the average condition of the wage-earning class improved at a greater rate during the period in which the country came nearest to a policy of complete *laissez-faire* in relation to the distribution of wealth than at any other time. Professor Bowley has made a more detailed examination of changes in the distribution of the national income in the forty-three years preceding the war. The price level was about the same in the two years 1880 and 1913, so that no corrections had to be made for this factor; the period was long enough to afford a useful comparison and yet not so long as to involve comparison between economic systems that had materially changed. The result of the comparison was to show that wages had increased at about the same rate as the average income of the community; that the proportions in which the national income was distributed between property and work, and between the three social classes into which it is convenient to divide the population for the purpose of studying the distribution of the national income, were unchanged; and that the chief change was in the numbers of persons in the income-tax-paying class and in the intermediate class of persons, whose incomes were below the income tax exemption limit, but were not wages in the ordinary sense. As Professor Bowley points out, the comparison gives a remarkable confirmation of the assumption upon which economic theory

works, that the distribution of income is not accidental or arbitrary, but the result of fundamental tendencies in industry, which are not affected by slight changes of technique or law. The comparison confirms the conclusions drawn from Sir Josiah Stamp's study of the longer period.

When we examine the period 1880–1913 in more detail, however, we find that the rise in wages was not uniform or continuous. Money wages, according to Mr. Wood and Professor Bowley's index-number, rose just 10 per cent. by 1895 and 22 per cent. between 1895 and 1913; but the period 1880–1895 was a period of falling prices while prices rose from 1895 to 1913. If, therefore, real wages be taken as the index of the improvement in the economic condition of the wage-earning class, nearly the whole improvement was made by 1895; after which year the rise in money wages was sufficient to compensate for the increased cost of living, but little more. Moreover, a large part of the rise in the average level of money wages was due to the shift of the occupied population from low-paid occupations like agriculture to relatively well-paid occupations like coal-mining and engineering. The average of wage rates did not rise as much as prices. The wage-earner who had not changed his occupation would feel, therefore, that his economic position was growing worse, while all the external and visible signs of industrial conditions pointed to a rapid increase in the country's wealth. With the industrial unrest and the revival and extension of trade unionism, which this check to the rise in real wages explains, I am not here concerned, except in so far as they, like the check to wages itself, strengthened the demand for social reform by political action, and created an atmosphere in which it was possible to carry novel social legislation; what I wish to stress is that the demand was intensified, and a favourable atmosphere created, in the first decade of this century. The share of the national wealth that reached the wage-earner in the form of wages no longer increased at a rate that satisfied him, and the way was open—in a democratic state—for a financial policy that would try to make things up to him in some other way—in a word, for a Limehouse policy, so called, no doubt, because it aimed at alleviating the conditions of life in places like Limehouse.

The change, I have suggested, took the form of a great extension and diversification of the three types of interference by Government with distribution that were admitted even by the strictest advocates of *laissez-faire*. It will be convenient to

consider first the extension of Government regulation. The distinctive innovation was the extension of regulation from conditions of work to wages; and not only to the form, but to the amount of wages. This was effected by the Trade Boards Act of 1909. Now we have seen that this innovation did not involve Parliament, Cabinet or any Central Department in the responsibility of actually fixing a rate. This responsibility was thrown on the representatives of the trade in each case, who, with a minority of Appointed Members, formed the Trade Boards; Government only promulgates and enforces the rates fixed. Essentially, therefore, the scheme is a scheme of compulsory collective bargaining, applied to trades in which collective bargaining had not arisen spontaneously or was ineffective. The amending Act of 1918 makes this explicit, by substituting for "exceptionally low" wages the condition that "no adequate machinery exists for the effective regulation of wages" as the differentia of the trades to which the Act is applicable.

If the Trade Boards scheme merely extends collective bargaining, without any direct imposition by Government of a rate or rates predetermined in accordance with some abstract principle, it might seem that I have exaggerated its significance. There is, however, no doubt that the institution of Trade Boards has been followed by a levelling up of wages in the trades covered towards (or even beyond) the level of wages in organised industries; and if this result has been achieved without the inclusion in the Acts of any question-begging references to living wages or reasonable wages, that is a tribute to the practical wisdom that drafted the Acts. My reasons for believing that the mere extension of compulsory collective bargaining to a trade in which wages are exceptionally low will tend to raise wages are three.

In the first place, in the absence of collective bargaining, the individual wage-earner is unlikely to secure even the wage that the conditions of the trade will permit the employer to pay; a Trade Board, therefore, by eliminating the possibility of an unscrupulous or hard-pressed employer's exploiting the individual weaknesses of his work-people, and imposing the standard of the wages paid by the better employers on the whole trade, will tend to level all wages up to the limit that the trade can bear, without any reduction in the volume of employment. In the second place, a trade in which wages are not settled by collective bargaining is likely to be at a disadvantage in competition with other trades in securing from the consumer, the final

paymaster of all the industries, a good price for its products; a Trade Board, by redressing this inequality between industries, organises, as it were, the trade as a whole, and, by enabling it to secure a better price for its products, enables it to pay a better wage to its workers.

In the third place, the conditions that limit prices and wages are continually changing. The chief benefit which a trade union confers on its members is that it enables them to maintain wage rates during a temporary depression and to force them up when demand recovers. Before the war society was getting richer; each year, therefore, it could pay a better price than the previous year for some of its products; in the absence of Trade Boards or some similar machinery, it would tend to pay this price to the organised industries, which, being organised, were in a position to extract it. Trade Boards put unorganised industries in a position of equality, or even of superiority, as compared with the organised industries, and so made it possible for them to press a claim for a share of this increase in society's wealth. I conclude that the mere extension of collective bargaining would tend to raise wages in the trades to which the extension was made.

By themselves, however, the Trade Boards could not have effected the improvement in the condition of the lowest-paid wage-earner that the last twelve years has seen. Two other factors have to be taken in conjunction with Trade Boards. The first is the war-time regulation of wages by the Ministry of Munitions, and the reaction of Government Wage Orders on the standard of wages established by voluntary collective bargaining; the second is the support given to wages by the post-war Unemployment Insurance scheme. During the war the Wages Orders of the Ministry of Munitions forced up the wages of women workers and unskilled men more rapidly probably than they would have risen but for this assistance; at the same time the advances in wages generally, given by or in accordance with the awards of the Committee on Production, took the form of flat-rate advances, and so raised unskilled rates in a higher ratio than skilled rates. Government control of wages in war-time, therefore, operated in the same direction, that of raising rates in unorganised trades relatively to those in organised trades, as Trade Board control before and since the war. After the war Trade Boards were extended widely with the express object of supporting the wages of workers who had had the benefit of the war-time control; so that statutory regulation tended to preserve the advantages gained by the less skilled

and lower-paid workers. Further, the advances in wages awarded by statutory orders, whether under the Munitions of War Acts or the Trade Boards Acts, help to establish new standards of remuneration for unskilled and semi-skilled workers. The unions which cater for these classes—the extension of whose activities is an outstanding feature of recent trade union history—are influenced by these new standards, and make correspondingly advanced demands on the employers with whom they negotiate. A higher relative standard of wages for unskilled and semi-skilled work generally has thus been established.

There was no difficulty in forcing up wages during the war and the post-war boom; the stability and permanence of the results achieved can be judged only at the end of a period of trade depression. Wage rates and employment are correlatives; if a wage rate is too high it will cause unemployment. The establishment of a new rate, therefore, whether by a trade union, a Trade Board, or a Departmental Order, may involve a decrease in employment, and create a problem of temporary unemployment, even if the rate has anticipated only by a little the growing capacity of the industry to pay wages. Trade unions built up a system of unemployment insurance that enabled them to take this risk; it seems to me that Trade Boards in unorganised trades and General Labour Unions with no unemployment benefits, or small and partial benefits, have been able to take the same risk only because the State has provided unemployment benefit for the workers whom their rates may displace. Wages rates are, after rents, the most sticky of all prices; we should expect the relatively higher rates established by 1920 to come down slowly in any case; but it seems improbable that the unskilled worker's position would not merely have been maintained in the depression, but improved relatively to the skilled man's position, if unions and Trade Boards had not been able to rely on the national Unemployment Insurance scheme, and particularly the provision of Uncovenanted Benefit, to deal with any unemployment for which their rates were responsible. In effect uncovenanted unemployment benefit is the true minimum income established in industry by law.

The importance of this upgrading of the lower rates of wages in the last twelve or fourteen years is that it attacks poverty at its main point. In the analysis of the immediate causes of poverty, defined by reference to a " poverty line " of about 23*s.* for a family of five, which Professor Bowley made on the basis of his sample inquiry in 1913, about two-thirds of the persons

living in poverty were in that condition because the wage was too small to support the family on this minimum standard. It was an accident that this inquiry was made just at the time when the Trade Board system was emerging from its trial period, and a misfortune that no one thought of making it before 1913; it was worth many volumes of the evidence that the Poor Law Commission collected. But the coincidence of the two shows that the Trade Boards Act was one of the most significant reforms of its period; while the post-war inquiry by Professor Bowley in the same places and on the same lines shows that the reform, taken with the other co-operating factors we have discussed, has largely succeeded in its object.

Just as Government regulation of economic contracts has been extended and diversified, so has the second modifying influence that we noticed been extended and diversified—the influence of Public Relief. The phrase "Public Relief" has acquired perhaps too narrow a connotation for my purpose; I wish to include any addition to the real income of the wage-earning class which is provided by Government without charge or below cost. It is possible, I think, to take this into our consideration of the distribution of wealth without entering into the wider and more difficult questions of the basis of taxation and the proper limits of public expenditure. Comparing the present with an earlier period we find certain things, such as education for his children and provision for his own unemployment, provided by the State and forming part of the income that the wage-earner enjoys, which formerly he could enjoy only if he could pay for them out of his wage. We must allow for these benefits if we wish to measure the change in his position.

Only a rough measure is possible; but that will suffice. Exact measurement is not possible for two reasons. We can ascertain the total cost to the State of the free or subsidised social services that it provides; but we cannot identify the recipients with the wage-earning or any other income class. If, however, we take the convenient dividing line afforded by the pre-war income tax exemption limit, we find that practically all the wage-earners fell below it and that they formed four-fifths of the whole number of persons with incomes below it. The greater part of the expenditure on public social services, therefore, can be regarded as an addition to the real income of the wage-earning class. In the second place wage-earners contribute to national and local taxation, out of which the cost of the social services is met. The addition to their real income

made by the social services is not, therefore, necessarily a net addition. We can, however, make a rough estimate of the change in the distribution of the burden of taxation between the different social classes. What we find is that taxation has become more progressive in the same period as the expenditure on social services has increased. We shall not be misled, therefore, if we take the increase in the aggregate expenditure on social services as in the main an addition to the real income of the class that draws wages, and the change in the ratio of that expenditure to the total wage-bill of the country as a rough measure of the benefit that the wage-earner has derived from direct control by the State of the distribution of wealth.

The amount of the expenditure on social services depends on what we include under that head. The so-called Drage Return of Public Social Services (Total Expenditure under certain Acts of Parliament) includes Insurance, War Pensions and Old Age Pensions, Education, Reformatory and Industrial Schools, Care of Inebriates, the Public Health Acts (so far as they relate to Hospitals, treatment of disease, and Maternity and Child Welfare), Housing, the Poor Law, Lunacy and Mental Deficiency. It relates to Great Britain only and shows expenditure for the years ending 31st March, 1891, 1901, 1911, 1921, and the latest year for which figures are available. In the earliest year there are only seven heads of expenditure, and only Education, Poor Law relief, and Lunacy account for more than half a million; the total expenditure is £22,040,000. In 1901 the items are the same, but the total expenditure has grown to £36,000,000. Ten years later Old Age Pensions appear in the list and a small expenditure in relief of unemployment; the total has grown to £63,000,000. 1921 shows a big change. Health and Unemployment Insurance and War Pensions appear in the list, Housing has become a substantial amount, and the total has grown to £307,000,000. In the latest year, which does not, however, include Widows' Pensions and the concurrent extension of Old Age Pensions, the total is £332,000,000.

In order to get a post-war figure comparable with the earlier figures, it seems desirable to exclude War Pensions, which are an abnormal and transient charge,[1] and also the contributions made by employers and workpeople to the funds of the two insurance schemes. These adjustments bring down the figure for the latest year to just over £200,000,000. For the purpose

[1] War Pensions should, however, be taken into account in comparing the condition of the poor before and after the war.

of comparing the expenditure on social services with wages we want the expenditure for the United Kingdom as a whole over a rather longer period than the Drage Return gives. Making these adjustments, we find that expenditure in the United Kingdom increased from £16 millions in 1880 to £69 millions in 1910–11, and £80·6 millions in 1913–14. Professor Bowley has estimated the national wages aggregate in these three years at £465 millions, £732 millions and £770 millions. Thus the ratio of expenditure on social services to wages in the three years would be:

1880	16 : 465 =	3·4 per cent.
1911	69 : 732 =	9·4 per cent.
1913	80 : 770 =	10·4 per cent.

In 1924 I should guess the ratio at not less than one to eight.

It is to be noted that it is not suggested that wages have actually been increased by this amount; wage-earners are not the only beneficiaries of these services. I take the ratio merely as a convenient index of the growing importance of State-provided income. The gross figures of expenditure would naturally increase with the growth of population, and, since 1895, with the rise in the general level of prices; but aggregate wages have also been influenced by these changes, so that the ratio between the two is the best index of the change we are trying to measure.

It is interesting to observe just when this change took place. The increase in expenditure has been continuous; but the rate of increase slackened in the 'nineties, increased in the first decade of this century, was increasing still more rapidly just before the war, and has continued since the war at the pace set then. In other words, it has followed, and to a large extent compensated for, the check to the rise in real wages that we noticed about the end of the last century. In part the increase has been due to a more generous—or lavish, according to the point of view—expenditure under old statutes, such as the Elementary Education Acts, Poor Law and Public Health Acts; partly to new legislation, of which Old Age Pensions, the Insurance Scheme and Housing are the chief examples. Moreover, while the biggest increase in expenditure has taken place since the war, the principles on which that expenditure should be based were settled before the war. Between 1906 and 1914 Parliament made the State responsible, not only, as we have seen, for the

regulation of wages by Trade Boards, but for Old Age Pensions, compulsory State-aided Health and Unemployment Insurance, the feeding and medical inspection and treatment of school-children, and the supply of working-class houses; post-war Governments have merely extended and elaborated schemes instituted then. The full significance of the social legislation of the pre-war decade escaped notice because the war supervened to stop development, and to prevent people from realising, when development was resumed, that the post-war legislation was merely an extension, without any innovation of principle, of the pre-war schemes.

Of these pre-war schemes the most interesting for our purpose was the National Insurance Act. In the estimates of expenditure on social services given above only the State contribution was included. The greater part of the expenditure under the Act was, however, met by the contributions of employers and employed. Now the workers' contributions came out of their wages, out of the share of the national income, that is, which the workers obtain by the ordinary processes of commercial bargaining. It seems to me that the employers' contributions are essentially of the same character. It is true that they did not in the first instance come out of wages, since I know of no case where wages were reduced by the amount of the employer's contribution when the Acts first came into force; but the Insurance Act did nothing to increase the funds out of which employers can pay wages, except in so far as the contributions, being exacted simultaneously from all the employers in an industry, might encourage them to raise prices and so enable them, where demand was inelastic, to recover their expenditure from the consumer. Apart from this exceptional case the employers' contributions were a compulsory flat rate advance in wages, imposed by the State and then appropriated for the special object of providing insurance—an advance which would probably have been conceded in the ordinary way, though not so soon and not in the form of a flat rate, but for the Government's intervention. These advances caused little or no dislocation up till 1920, because trade on the whole was expanding all the time, and the contributions were small. Since 1920 the effect has probably been different. A compulsory advance in wages, imposed without any consideration of the capacity of different industries to pay such an advance, is likely to cause some unemployment. When trade is expanding this effect will be small and transient; in a prolonged trade depression it may be an

important influence retarding recovery. It may be doubted whether the year in which the country returned to the gold standard was the best time to choose for the last big extension of subsidised insurance to Widows' Pensions and Old Age Pensions at sixty-five, desirable as these were in themselves.

The Insurance Acts then fall into a category intermediate between that of direct subsidy, like Old Age Pensions, and that of pure regulation, like our Trade Boards Act. Apart from the State subsidy their effect was to change the form, without altering the amount of wages. They ordained that the worker, instead of getting all his earnings in weekly wages, should get a part in the form of rights to income in sickness and unemployment, actuarially equivalent to the contributions which he and his employer and the State made to the insurance funds. Thus the Acts secured a better distribution of the wage-earner's income in time, reducing it when he was working, but insuring that it did not cease when he was unable to work. Wage-earners could have made similar provision for themselves, as some of them did through Friendly Societies and Trade Unions; but those who most needed this provision were least likely to make it. The State contribution and the compulsory character of the scheme made it possible to bring into it the lowest paid workers, and also secured provision in sickness and unemployment for better paid workers, who had the means but lacked the will to make provision for themselves.

The effect of recent social legislation, then, appears to have been to compensate the wage-earner for the check to the advance in his real wages. The compensation would, however, be illusory if the cost of the increased social services had been met by increasing the amount of taxation paid by the wage-earner. This does not seem to have been the case; on the contrary, there has been, in the period in which the increased expenditure on social services has taken place, a redistribution of the burden of taxation in favour of the wage-earner. The best indication of this is the ratio which the chief direct taxes, to which wage-earners before the war contributed practically nothing, bear to total Government expenditure. Income and Super-tax, House Duty, Estate Duties and Corporations Tax are included under the head of Direct Taxes; expenditure on the Postal Services, being met in the main by the trading receipts of those services, is excluded from the account of expenditure. The ratio in our first year, 1880–81, was just under a quarter; in 1890 it was only slightly higher, 28 per cent.; in 1900, a year of war, it had

risen to 37 per cent.; in 1911 it was 44 per cent.; in the last year for which I have figures, 1924–5, it was 58 per cent. The contribution of Customs and Excise, on the other hand, fell from 60 per cent. in 1880 to 45 per cent. in 1911 and 33 per cent. in 1924. It may be objected that the increase in direct taxation has been due to and swallowed up by the increase in Debt Charges, which are mainly payments to members of the income tax paying class. This is an irrelevant objection, since the burden of debt was not incurred for the peculiar benefit of the income tax paying class, and there is no reason in the nature of the burden why it should be placed exclusively on their shoulders. In any case before the war Direct Taxes increased while Debt Charges were reduced. In 1880, when Debt Charges amounted to £29·5 millions, Direct Taxes amounted to £18 millions, while in 1913, when Debt Charges had been reduced to £24·5 millions, Direct Taxes had risen to £78 millions. Even to-day, when Debt Charges have risen to £364 millions, they form a smaller proportion of national expenditure than they did when Mill published his *Principles*.

More exact estimates of the burden of taxation falling on different economic classes were made by Sir Herbert Samuel in 1919.[1] The result of his investigations for certain typical incomes is summarised in the following table; the figures relate to a family of five persons and exclude Excess Profit Duty; the taxation on the incomes of £100 and £1000 is on the assumption that the incomes are "earned," on those of £5000 and £50,000 that they are "unearned"; both actual amounts and percentages of income are given:

Income.	1903–4.		1913–14.		1918–19.	
£	£ *s.* *d.*	%.	£ *s.* *d.*	%.	£ *s.* *d.*	%.
100	6 4 10	6·2	6 1 1	6·0	13 15 11	11
1,000	74 12 3	7·4	66 12 0	6·6	194 14 9	19·4
5,000	480 2 11	9·6	623 5 4	12·4	2,178 19 9	43½
50,000	5,118 8 11	10·2	9,089 5 4	18·1	31,959 19 9	63·9

Leone Levi's estimates at an earlier date[2] were rougher; but they may be set down for comparison, in order to show the trend of tax distribution; they give only the average amount of taxation per head in the working class and in the "middle and upper classes."

[1] *Journal of the Royal Statistical Society*, March 1919.
[2] *Ibid.*, March 1884.

	1842.		1862.		1882.	
	s.	d.	s.	d.	s.	d.
Working class . .	27	4	27	0	25	11
Middle and upper classes	60	0	77	8	66	0

He estimates the percentage of his income that the average wage-earner with a family paid in taxes in 1842 at 16 and 1882 at 7⅓.

It is not possible to state what proportion of local rates is paid by the classes below the old income tax exemption limit. Sir Bernard Mallet [1] estimated it just before the war at three-tenths of the whole, or £22·5 millions in 1910; Leone Levi in 1882 at a third of the whole, or £12·7 millions. The Board of Trade in the Second Fiscal Blue Book, for the purpose of estimating changes in the cost of living, took dwelling-houses rented at less than £20, and so exempt from Inhabited House Duty, outside London, and houses under £50 rental value in London, as representing working-class houses, and calculated the change in the average rent, including and excluding rates, for the period 1880–1900. The increase in the burden of rates shown is just under £7 millions. Between 1900 and 1911 rents increased little if at all; the number of houses in the rental categories taken increased about 15 per cent., and rates on an average increased by a quarter. The residents in these houses would pay another 5½ millions, or 12½ millions more than in 1880; a small part of the whole increase in public expenditure. Since 1914 the increase in local expenditure has been very great; but the increased burden falling on working-class rate-payers has been limited until the last two years, first, by the increase in the ratio of Central Government grants to local rates; and secondly by the Rent Restriction Acts, which, by preventing working-class rents from rising as much as values generally, has tended to reduce the proportion of the burden of rates falling on them.

The combination of progressive taxation with the extension of social services provided by the State has had the effect of transferring a considerable portion of their income from the rich to the poor. In this transfer is to be found a part at any rate of the explanation of the improvement in the economic condition of the poor which even the war has not neutralised. The check to the rise in real wages has been compensated for by the increased provision of social services by the State and

[1] *British Budgets*, p. 451.

by compulsory advances in wages, in the form of insurance contributions, imposed on employers. At the same time the Insurance Acts and the Trade Boards Act promoted a rearrangement or redistribution of income to the points at which the evil of poverty pressed hardest. Although the full extension and development did not come until after the war—indeed has not come yet—there existed when war broke out, in a complete if undeveloped form, a policy for dealing with the evil of poverty.

The problem of poverty was the mainspring of economic studies in this country before the war; it may be worth while in conclusion to consider what progress we have made towards its solution. As it presented itself to social reformers in the 'eighties and 'nineties of the last century, poverty was a problem partly of chronic want, partly of occasional misfortune for which no provision had been made, partly of inequality. There was a mass of misery due to chronic want, a sort of residuum that was left undisturbed when the increase in wealth in the nineteenth century " surged up " through the higher income classes. There was the intermittent or occasional want due to unemployment, loss of income through accident or sickness, or death of the chief wage-earner of the family. The inequality in the distribution of wealth was an element in the problem, since all consumption standards are relative, and the ostentatious extravagance of a rich class created a sense of poverty in the members of a poorer class who might have quite enough to meet the needs of physical existence and the conventional necessities of their own class.

The chief improvement has been in the raising of the lowest class. We have seen that the direct attack on low wages by Trade Boards and war-time wage orders is perhaps the most significant single reform. But by itself wage regulation could not have effected the improvement that has taken place. The mere raising of wage rates would have caused unemployment; and unemployment would have brought wage rates down again, if provision for relief in unemployment had not been made; and even unemployment relief would not have kept wage rates up if the worker's capacity had not been raised *pari passu* with his rates. The conditions revealed by the inquiries of Booth and Rowntree, by the House of Lords Committee on Sweating, and the Royal Commission on Housing, called for the compulsory education and physical supervision of school-children, the improvement of insanitary areas under the Public Health and Housing Acts, the better regulation of Factories and Workshops, the relief of the aged by Old Age Pensions, and provision

for invalidity and unemployment. The element of risk in the problem has been met by Workmen's Compensation, the National Health Insurance scheme, Unemployment Insurance, and the most recent extension of insurance to provision for widows. The provision is still unsystematic and incomplete, but it has been sufficient to maintain unimpaired the standard of life of the working classes in spite of a great war and the most profound and prolonged industrial depression we have experienced. The best measure of the change is given by Professor Bowley and Miss Hogg's repetition in 1924 of the sample inquiry into poverty in five towns made in 1913. Adopting the same standard of poverty, they found that in spite of the extensive unemployment of 1924 the proportion of families in poverty was little more than half what it was in 1913.

The correction of inequality has not gone so far, while the resentment at inequality has grown. That is one reason, probably, why the progress that has been made in dealing with the other elements in the problem escapes notice. Yet something has been done. We have not yet habituated our minds to post-war standards of taxation; and, just as we forget in judging the wage of a wage-earner to allow for his employer's contribution to his insurance rights and his share of the £200 millions expended by the State on social services, so in judging the position of a man whose income is £10,000 a year we forget to allow for the deduction of £3000 income and super-tax; or in noticing the magnitude of a deceased millionaire's estate to notice also the magnitude of the Estate Duties by which his fortune will be diminished before it reaches his heirs. How far we have moved is, I think, shown by this, that a collectivist writer,[1] framing a reformed income tax in 1905, dare not propose a maximum rate of income and super-tax combined of more than 1*s.* 8*d.* Since then we have had a combined rate of 12*s.* Progress towards equalisation of economic conditions, however, is to be seen less in statistics of income distribution, even after taxation is deducted, than in the approximation of the standards of consumption of different classes. Fewer persons go short of food in a post-war trade depression than before the war. Medical Officers of Health report that the public health, and particularly the physical condition of school-children, is better in the worst spell of unemployment that the country has known than at any time in their recollection.[2] There is less superficial difference in the clothing of

[1] *Riches and Poverty*, L. Chiozza Money, 1905.
[2] Cf. *The Third Winter of Unemployment*, Astor and others.

different classes than there was before the war; the poor have a greater variety of food than in any earlier age; rich and poor enjoy the same films, music-halls, wireless, and football matches to the exclusion of less exciting entertainments. There is a shortage of housing, but that is largely because we are no longer satisfied with the kind of houses in which the poor lived in the nineteenth century. The modern press with its immense circulation caters for all classes without distinction. And these external similarities are largely the outcome of a more profound approximation of standards; the working-man's family to-day enjoys an intellectual education better than the middle-class boy, or indeed probably a boy of any class, enjoyed seventy years ago. The motor, a noisy and ostentatious mark of class distinction, by enabling his poorer neighbours to see the same rich man half a dozen times, when a brougham would have exhibited him only once, has given a false impression of the numbers and riches of the new rich; but even that distinction is disappearing as the motor-bicycle and light car are brought within the reach of the better-paid artisan. The general reduction in the hours of work since the war removes, or lessens, another difference between the classes. The artisan no longer "loses a quarter" if he follows the excellent middle-class custom of beginning work only after breakfast. A visitor who should return to this country after an absence of thirty years, and observe the change in the conditions of working-class life, would find it hard to believe that real income per head was probably no greater now than then.

Now this improvement is not all of it by any means due to State action. The influences on which the statesmen of the *laissez-faire* school relied have continued to operate. Wealth per head grew rapidly until war broke out and reduced it; and the technical progress of industry has brought within the reach of relatively poor classes amenities of life that were outside the reach of the rich a generation ago. The redistribution of the occupied population in accordance with the demand for labour shown by varying wage rates had important influence in raising the average level of wages. The numbers in low-paid occupations like agriculture declined, while the numbers in the relatively well-paid mining and metal industries increased in much greater proportion than the increase in population; the average of wage rates, if no allowance is made for numbers in the different trades, increased between 1898 and 1913 only 10 or 11 per cent.; when the average is weighted to allow for changes in numbers,

the increase was 18 or 19 per cent. The relative rise in the lowest wage rates is a change that wage legislation helped; but it was probably influenced also by the spread of education and increased mobility of labour, factors on which the opponents of wage legislation used to rely. The diminution in the consumption of alcoholic drink has been so great that it too has probably contributed to the general economic improvement. More important is the decline in the birth-rate, which Mill and his predecessors looked to as the chief source of an improvement in the condition of the wage-earner. Dr. Bowley and Miss Hogg found that about a third of the reduction between 1913 and 1924 in the number of families living in poverty was attributable to the smaller size of families and the consequent reduction in the needs that had to be met from a given wage.

If there had been no change in public policy, therefore, there would have been some improvement in the economic condition of the mass of the population; and, without the co-operating influence of the unaided and unregulated development of industry, the opportunities of public policy would have been very limited. Yet public policy must be credited with the chief part in the recent improvement. The most marked improvement has been made in the last twelve years, in spite of war and trade depression, when wealth per head has probably declined; and this improvement has taken place, because it is since the war that the full effect of the pre-war legislation has been felt. Public policy has secured for the lowest-paid industrial workers a wage that is reasonable in relation to the wealth of the community, and made provision for them in unemployment when industry could not pay them those wages. Public policy again has assisted and compelled wage-earners to make provision for the risks of sickness, unemployment and premature death, and has made direct provision for old age. Public policy again is responsible for the increased care of child-life. Without interfering with or abrogating the essential elements of freedom in the policy of *laissez-faire*, and without assuming the awkward and dangerous responsibility for fixing prices and incomes, Parliament has nevertheless interfered materially with the distribution of wealth, has done much to secure a better distribution, and has done more probably in the present century to solve the problem of poverty than any previous generation or any other country has been able to do.

HENRY CLAY

University of Manchester.

THEORIES OF OVER-PRODUCTION

I

When J. B. Say maintains that an article of merchandise has as many possibilities of meeting an effective demand as there is abundance of other commodities, and that the best way of furthering the sale of one commodity is to produce another, he forgets that one commodity is not bartered against another; the formula runs, "service—money—consumers' goods"; there may be many a slip between the correspondence of service (goods produced) and goods desired.

Any change in demand disturbs equilibrium, and this disturbance has cumulative effects. The producer whose finished articles are rejected by the consumer ceases production; he not only discharges labour but refuses to buy the partially produced wares from his predecessor in the several stages of production, through which the merchandise in question has to pass in its progress towards the finished state; from this predecessor the paralysis spreads backwards through all the stages of production. The discharged workmen as well as their masters must retrench in their way of living; thus the paralysing movement spreads to other branches, not at all connected with the one first hit. If *A* cannot buy *B*'s goods before he has sold his products, because *A*'s profit can only be realised through sale, neither can *B* buy *A*'s goods before he has sold his own; thus the stoppage in the flow of income to *A* stops *B*'s income, and so on in widening circles. It is as in the game of "patience," where I must have the kings before the aces; now if the cards are so distributed that the king of spades is covered by the ace of clubs, and the king of clubs by the ace of spades, the sequence is broken, and I must reshuffle the cards.

But the effects are cumulative in another way: let a commodity pass through three stages and the monthly sale be 10 units; then the last producer must buy from the second one half-finished goods for 10 pieces, and he again from the third producer raw material for 10 pieces. Now the demand shifts, and only 8 are sold; the first producer has then 2 left, and believing that he will not be able to sell more than 8, he only buys 6 from the second producer, who in his turn then has 4 left,

and, judging his future sale to be only 6, buys only 2 units of raw material from the last producer; the latter has then 8 units on hand and stops altogether.

But, it may be said, demand has shifted to another commodity; it is not possible, however, to buy more than is ready; thus the last-stage producer of this commodity must limit himself to passing his orders to his predecessor in the chain; neither can the second man produce before his material is at hand, and so on. Only the producer in the first stage benefits at once by the increased demand for the finished article.

The beneficent effects of the demand at one point are, therefore, neither simultaneous nor strong enough to counterbalance the detrimental effects of the slackened demand at another point. If the slackening of demand is sufficient we may find a spreading of the paralysis in very wide circles, with the effect that the income of very many persons connected with the suffering trades has decreased without being counterbalanced by an increased income for other persons. From the point of view of the undertakers affected, who cannot sell their goods at prices which cover costs, we may speak of a temporary relatively general glut, notwithstanding that thousands of human wants are not satisfied and thousands of men and implements are ready to provide for the wants.

In a natural society consisting of independent family cells, which at the same time are centres of production and of consumption, over-production is a sheer impossibility; as long as human wants are not fully satisfied, one must reject the idea of there being too much of consumers' goods and consequently of producers' goods. In a static society the same holds true: production has, as well in quantity as in kind, adapted itself to the regular demand as determined by an unalterable distribution of the national income. In a properly regulated socialistic society—if this be conceivable—production would conform itself "*selon les besoins.*" But in our highly complicated dynamic society, where the processes and the means of production are shared out among millions of individual undertakings, a relative but still general over-production may be possible.

Believing modern society to be only an enlarged edition of natural society, the classical writers of our science could not distinguish between relative and absolute general glut. Malthus and Sismondi initiated an opposition against the general belief; the socialistic critic of capitalistic society has, however, at least

had the merit of breaking asunder the belief in a parallelism between a complicated society and a society of barter. We must first give up the unorganic mechanical notion of society and comprehend it as a living organism before we approach the problem of over-production.

Everybody knows that a relative general glut reappears every time credit collapses and that it is a natural and regularly reappearing phenomenon of deflation. Whenever demand undergoes a sudden and violent change, we get to a certain degree a paralysing of industry affecting trade as a whole, and that is so whether demand shifts from one kind of consumers' goods to another, or to producers' goods.

Now we know that the psychological process of saving is abstinence, but the technical process is that of shifting the demand and production from consumers' to producers' goods. There is a difference in the effects of shifting the production on to consumers' goods and on to producers' goods, because the first kind is consumed, but the latter is productive of more goods. If we go on saving we augment the fund, which in its action must create more consumers' goods; and then the question, at first sight rather a strange one, arises, whether excessive savings can create a state of over-production.

II

" Excessive saving operates through deficient demand for commodities to slacken the sinews of production and produce more capital goods than we are able to put to full productive use. The current distribution of income through the industry tends normally to evoke a rate of saving that is excessive " (*vide* Hobson).

Mr. Hobson perceives a permanent cause for crises in the propertied classes' continued savings, when this saving is not accompanied by a corresponding increase in the purchasing power at the disposal of the working man. If a class spending £100 millions a year, and by this expenditure maintaining a luxury industry, suddenly becomes virtuous and saving, the persons engaged in those industries at once see themselves out of work. After a while the employers find that it cannot pay to build new factories for supplying the working classes, who have not got a bigger income, or to erect factories for goods which the rich may consume, in so far as the rich direct their purchasing power to capital goods. After all the ultimate aim of all pro-

duction is consumers' goods; to the extent that these are unsaleable the machinery must stop at last for want of a market. In so far as the workmen cannot absorb the increased production, to maintain equilibrium between production and consumption the capitalist after a spell of economy must augment his consumption at the same rate as that by which the productive powers of society have been increased. If he does not, there is a general glut.

Mr. Hobson supplies new arguments to the theories of Sismondi, Rodbertus and Marx. The socialistic theory rests on the supposition that wages are a fixed quantity, always near the minimum of subsistence; and further, that labour's proportion of the total national income is ever decreasing—the axiom of the ever-decreasing "quota of wages" (*Lohnquote*). This postulate may be right, even if we admit that wages have actually risen, *i.e.* when productivity has increased at a faster rate than wages.

Marx bases his arguments on the fact of a progressive accumulation of capital due to an ever-increasing surplus value (*Mehrwert*), appropriated by the capitalist and not entirely spent in consumption, but partly turned into new capital. As long as the organic composition of capital is unaltered, labour is not the worse off. Competition, however, and the individual will to profit compel the owners to invest their savings in a higher technique, characterised by a greater proportion of capital invested in labour-saving machinery and a smaller proportion in the wages fund. Thus the reserve army of industry is augmented, and the man on the labour exchange keeps wages down for the man within the factory gate. The increase in capital accompanied by an increase of "the reserve army" makes an increased productivity meet with a decrease in the purchasing power at the disposal of the majority of the people. The "bourgeois" refuses to buy the new consumers' goods, and goes on saving. During the crises the bourgeoisie counteracts the coming glut by stopping the factory wheels, incidentally throwing further labour on the street, thereby reducing the total buying power of the community.

Rosa Luxemburg believed the rate of technical progress to be quicker than capital's natural rate of exhaustion (amortisation). So far the causes of crises are inherent, *i.e.* resting on the very nature of our social and technical organisation. Capital, unable to dispose of its products, enters upon a reckless and embittered competition for markets outside the region of production, and inaugurates the expansive industrial imperialistic capitalism.

III

A Dane, Dr. Pio, wrote in 1904 a book on "economic depressions," in which he sides with Hobson and Marx. I quote his very lucid argumentation: An owning class spending an annual income of £100,000 resolves only to consume £90,000 in the future; to the extent that these savings yield a return, the income must increase from year to year; thus if the consumption remains unaltered, we behold the phenomenon of *accumulated savings*, viz.:

	Income.	Savings.	Consumed.
1 Year	100,000	10,000	90,000
2 Years	101,000	11,000	90,000
3 ,, ...	102,100	12,100	90,000
4 ,, ...	103,310	13,310	90,000

In the first year only the kind of production need be altered; there is no disturbance, provided labour can be transferred from production of one kind of goods to that of another. In the second year there must be produced goods to the value of £101,000 (if we take a rate of interest of 10 per cent.). The owners do not spend the extra £1000, but create a demand for £11,000 producers' goods; the fourth year there must be produced capital goods for £13,310, and so on. Thus we behold an ever-increasing complex of capital goods to produce machinery and other producers' goods. In the long run this causes an impossible entanglement. The productive machinery aims at being converted in due course into consumers' goods; its net-yield is created under a continued reproduction of the outworn capital.

The interval between the stages of the goods being a means of production and of ripening into consumers' goods is technically determined and cannot be exceeded. Thus an increased complex of producers' goods must, as quickly as the newly-created capital ripens, yield a corresponding increase in consumers' goods. Already in the second year in our example there is produced and ready for sale a larger quantity of consumers' goods than is demanded at a price which covers costs. When the new capital has reached the state of ripeness to cast off producers' goods and the owners are continuing their course of saving, the supply of consumers' goods must for technical reasons greatly surpass the

quantity effectively demanded, with the result of prices creeping below the cost of production.

This we may call *partial* over-production (of consumers' goods) and partial under-production (of producers' goods), so long as the total income suffices to buy the whole production at a reasonable price. But there exists a discrepancy between the kind of commodities produced and those desired. This apparently logical account veils the real causation, that demand is distributed over the two species of goods, which, on account of the ripening process, described above, is incompatible with the technical requirements of production. (Cassel seems to have a similar explanation.) This phase will not last long, provided that falling prices for finished goods are transmitted to the intermediate stages of production, *i.e.* to the producers' goods. The reduced incomes of the persons connected with the production of consumers' goods are paralleled by reduced incomes of the manufacturers of producers' goods. The total income of the community shrinks and cannot now, even if directed to correspond to the actual production, buy those products at a price, covering costs, which were incurred at the earlier period's higher price level. Over the whole field the owners of reduced incomes are unable to re-buy their own products at prices which cover costs.

The curious system of discount, according to which products, maturing at a distant date, are discounted in accordance not with the unknown prices of that future but with the higher present prices, causes a fall in price of the ultimate product during the period of transition to reduce incomes all round: first in the trades immediately affected, secondly in others affiliated with them, and thirdly in those industries which produce articles of consumption for the persons employed in the first-mentioned trades. The reduction of income hits firstly the undertaker, who by a wholesale discharging of staff passes some of his losses on to the salaried and wage-earning classes, thus decreasing the total purchasing power of the community.

Now we get the strange appearance of *superfluous and unsaleable goods*. We face a double conflict. The newly-created capital ripens into consumers' goods which nobody wants, and the old invested capital goes on ripening into such goods; the existing aggregate of invested capital is not elastic enough to meet a changing demand and goes on yielding the consumers' goods, which used to be in demand. The cumulative savings create by their very nature a disproportion between to-day's investment and next week's consumption.

Dr. Pio sums up : In so far as savings are deferred consumption—technically realised by manufacturing producers' goods, which in due time by technical necessity must yield a greater quantity of consumers' goods to cover the deferred consumption and something more (the reward of waiting)—this (deferred) consumption *must* take place, when the new means of production commences to yield consumers' goods. But if we put off our consumption beyond this time, we have brought into existence superfluous commodities not in demand. An isolated individual could not put off his final consumption beyond the point of maturity; seeing the perishable goods before him, he would understand that consumers' goods are to be consumed. In our complicated society, however, the individual does not see the commodities, but goes on saving through the banks. But society as a whole does not deal with money but with commodities, and is in the position of the isolated individual, in possession of the ripened consumers' goods nobody can or will buy ; we enter in the state of a general glut.

IV

The authors I have quoted are right in asserting, that a community which keeps its consumption unaltered and goes on putting by an increasing part of its income, must in the end see its production paralysed. But is such an unaltered consumption possible in a dynamic society, which goes on accumulating capital ?

Marx's theory is subject to two conditions : (1) that there are only two classes in existence, capitalists and the proletariat, and (2) that wages are rigidly *fixed* and near the minimum of subsistence.

Society, however, does not consist of two classes ; the technical development favours, even necessitates, the existence of a daily increasing middle class of traders, clerks and professional men, and this class are in an increasing degree actual consumers.

On the other hand, labour does benefit by an increase in capital. Most economists agree that the formula $\frac{C}{L}$—indicating the amount of capital and the number of workers—determines the relative strength of the two factors ; the greater C, the higher wages must be. Furthermore, working men do not save in any considerable degree. My argument is, then, that the accumulation of capital gives the workers a better tactical

position, a greater bargaining power, affecting wages; thus labour is able to demand a greater part of the produced goods than before. The rate of interest must decline, even if it is probable that the total amount the owner class receives in interest may be increased. Further, the growth of the middle class, whose purchasing power as a matter of fact increases in times of capital-accumulation, tends to absorb a part of the increased production of consumers' goods.

We cannot deny the possibility of an excessive rate of savings; the old-times Puritan ironmaster did save, he loved his work, had not enough leisure time, was not yet socially accepted by the idle rich, and his moral conceptions made most expenditure a sin (*vide* Mrs. Knowles). Nowadays the rich man only saves when he has left no sensible way of exhausting his revenues. Social ambition demands reckless expenditure; most savings outside the rural districts are made within the limited companies, by building up secret or open reserves or creating substantial assets where they have started by over-capitalisation and watered shares: the U.S. Steel Corporation started with a capital of 1400 million dollars, of which the half was water; fourteen years after the water was pressed out and replaced by real values.

We cannot judge by the figures of official statistics; when in Copenhagen real estate rose in price on account of the increased rents in the ten years after the outbreak of the war, the statisticians laid it down with glee that the national wealth had been increased by several hundred million crowns; and yet those millions were not a result of savings and abstinence, but only of capitalisation. From 1897 to 1914 the means of payment were increased from year to year, affecting the value of invested capital. The process of capitalisation grew at a tremendous pace. Add hereto that technical progress made production cheaper and that this cheapening of the processes did not reduce prices—as was the case in the last thirty years of the nineteenth century; the gain in the present century has been absorbed in the process of capitalisation. Thus the *private capital* which is really only a right to income without effort, a multiple of a free income, has been increased, without the *real* and social capital being proportionally augmented by saving. I repudiate the fear of Dr. Pio and Hobson of an excessive saving. We have not in our century had excessive savings, and even statistics prove this, if we take into consideration the rise in the price level since 1897, the doubling of the means of payment from 1897 to 1914, and

the fantastic growth of the processes of capitalisation in industry, when even a remote hope is capitalised; the war did devour capital, and we are not likely to save very much in the future; a world's State debt of 250 milliard dollars, the interest of which goes to private expenditure, and behind which is no productive activity, warrants neither fear nor hope of a considerable increase in our capital stock.

V

But still we cannot discard the socialistic theory of over-production, because there is some truth in it.

At first a part of the saved-up capital goes abroad; in that case labour does not reap the advantages of capital accumulation and yet suffers from the disturbances caused by the shiftings of demand, which it creates. Further, the socialistic thinkers have only erred in not distinguishing between the effects of *cumulative savings* and those of *high technique*, which makes manual labour superfluous. Treating those two problems separately I come to the following conclusions.

(1) A community owns a capital of £1 million, served by 10,000 men. I am abstracting from the fact that capital has a certain organic composition according to the technique employed; for instance, three-quarters of the capital may be fixed and one-quarter circulating. Here I must recall the assertion of Boehm-Bawerk, that the method of production, viz. the technique, must be chosen in such a way as to employ the whole capital and all the men. In our case this condition is fulfilled when you put £100 at the elbow of each man. And now we come to my main thesis: *Any alteration in the relation between C and L*—amount of capital and number of labourers—means transition to another technique. A capital of £1 per worker means a spade per man, £100 capital per worker does not mean 100 spades, but must mean a kind of machine; man has only two hands.

I do not agree with Professor Clark, that an increase of capital in the hands of a given amount of labour is subject to the law of decreasing returns; it would be so if capital was invested in the same technique; if we could give a man two spades instead of one, he certainly would not double his output; but we are obliged to invest in a higher technique if we desire to increase the amount of capital goods to be served by one man. An altered relation of C to L must mean an altered organic composition of capital, viz. an altered technique.

(2) Suddenly capital is doubled; the 10,000 men are now faced by £2 millions' worth of capital; but technique remains unaltered, that is, the technique is still characterised by an investment of £100 per man. Ten thousand men can by an unaltered technique only serve £1 million of capital; there arises a disproportion between the augmented capital, seeking investment and hunting for labour, and the same 10,000 men, who offer themselves for employment. This condition is bound to give labour a lasting advantage.

But to be idle to-day seems more out of the question for capital than for men. The rate of interest, having fallen, bids the owners to change over to a higher technique, to procure more costly machinery, which will permit one man to serve £200 worth of capital. Now, again, equilibrium sets in; 10,000 men, each serving £200 worth of machinery, give employment to £2 millions' worth of capital. Wages having been raised while 20,000 machines at £100 were competing for the 10,000 men, may decline, but not necessarily to the former level. And inasmuch as £200 working with one man probably yields at least double the produce of £100 and one man, labour further benefits by lower prices in the ratio in which it shares in the national dividend.

(3) Suppose now that the amount of capital is unaltered, but that the technique employed is changed, and that we build machines at £200. Then a capital of £1 million will provide us with only 5000 machines; the capital of £1 million is not any longer split up in 10,000 machines at £100, but in 5000 at £200. Only 5000 men can be employed; the other half is unemployed and causes an onslaught on wages.

The fall in wages should make it profitable to abandon the higher technique and return to the older one in order to create an equilibrium where all men are working. The mentality of the modern employer, however, is against this course, he sticks to his technique, preferring to take advantage of the better tactical position in bargaining with labour and to share as a taxpayer in providing the unemployment dole. A higher technique, not accompanied by a corresponding increase of capital, means unemployment and lower wages, both effects detrimental to labour. I then concur with Professor Wicksell, that the ultimate result of increasing capital is beneficial to labour, but labour-saving inventions are not accompanied by capital accumulation; the men who, in the days of Chartism, smashed machinery were not so unwise as it is often believed.

In the very long run the productivity of the new technique,

combined with the temporary low wages, creates a surplus gain for the employers, who then gradually, by investing this gain, must reduce the reserve army of unemployed, and this goes on with a steady improvement of labour's position until equilibrium is re-established, the necessary amount of capital having been created to satisfy the new technique.

The socialistic authors are then only right if they give their theory of over-production this form: whenever labour-saving technique increases at a *quicker pace* than capital, labour is thrown on the street, its purchasing power deteriorated, at the same time as productivity is increased. If now the owning classes do not buy the consumers' goods produced, we may for a time face a kind of general glut. So far as I can see, Europe has in the last twenty years suffered from a condition where technique is very much in advance of accumulation of real capital. If the owners restrain their expenditure to accumulate capital and technical evolution is hobbling behind, then wages go up and the labourers turn effective bidders for those commodities which the saving rich deny themselves. It is, however, inevitable that the shifting of demand from producers' to consumers' goods is temporarily accompanied by the usual disturbances. Equally it holds true, that if everybody was saving, consumers' goods could not be sold at a price covering cost; nobody would invest in capital goods, and even if the banks were to go on accepting deposits from the saving part of the community, they would not be able to find borrowers so that the deposits would only serve to swell the cash reserves, until the point was reached where the banks refused deposits. I believe that these theses can be corroborated.

VI

The owners of capital in the United States saw in 1920 the export trade disorganised and were at the same time victims of the deflation. They turned to the old trick of trying to force wages down. The immigration legislation, however, had given at least skilled and semi-skilled labour a scarcity value; in most trades labour resisted the attempt to knock down wages. At the same time the United States had plenty of capital; the ratio between C and L was very favourable to labour, and the employer deemed it profitable to introduce a higher labour-saving technique; thus equilibrium was reached between the abundance of capital and the scarce labour force, resulting in lower labour cost per unit, higher day-wages and higher productivity, and a purchasing

power at the disposal of labour to meet the increased production of consumers' goods. It looks as if real wages in the United States are 50 per cent. higher than fourteen years ago.

When two English engineers in the *Secret of High Wages* exhort the English employers to imitate their American colleagues, it may be questioned whether this policy is possible in a Europe where the ratio between C and L is quite other than in the United States; we cannot put as much capital at the elbow of each man as the States can.

I should like to ask, whether we can explain one of the greatest paradoxes which contemporary European economics offer: workmen are idle, machinery is idle, and the real lack of raw material does not impress itself upon us as it would if all hands were employed. It looks as if there is plenty of consumers' goods; the well-to-do do not deny themselves very much, the middle class has a higher standard of living than fourteen years ago, and even the unemployed do not hunger. We maintain our standard of living. Let me now try to find the reason of this curious state of society. (I waive the crises of deflation and the broken links of international trade, which can only explain a temporary disturbance.)

(1) We have spent too much capital during the war and have not got capital enough to employ *all* the men in the technique actually in use. If we had to employ all the men with the capital we actually possess, we should have to descend to a lower technique. We take, rather, the opposite way, hence the unemployment.

(2) But the technique actually in use makes production so formidably effective that even as half-timers we produce more consumers' goods than the actual income can buy at a price which covers overhead costs.

(3) This makes for a further retrenchment of production, to the extent that the unemployed and those retailers who administer to their wants have lost their purchasing power.

Now remember that the earlier investments were based on a consumption according to the earlier division of the national income, and that even the new investments have been made on the assumption of an unaltered consumption. The owners, even if willing to spend the surplus which they receive on account of falling wages, will not purchase the (inferior) goods which the productive machinery goes on turning out; thus there are in existence goods that cannot be purchased, and the profits of the producers of those goods do not materialise, but become losses. So the paralysis spreads; nowhere is the full capacity of industry

utilised, nowhere are the overhead charges covered, except at prices which deter the consumers.

This disproportion between the amount of capital available and the technique actually employed reappears in the organic composition of capital as it is to-day—too much of fixed, too little of circulating capital.

Thus we reach the paradoxical climax: a capacity of production greater than our consuming power. Our technique ought to make man-power expensive and goods cheap. But at any rate under the present social organisation the opposite holds with more truth unless the introduction of labour-saving technique is accompanied by a corresponding accumulation of capital.

VII

For an *individual* trade this rule may not apply; the curve of demand of its product may have such a shape that a very small reduction in price calls in thousands of new customers, with the effect that the working staff of the industry is doubled within a few years; we do not need to go to the time-honoured instance, the cotton industry in the nineteenth century; the introduction of the linotype has, so far from making the typesetter idle, increased the number of men employed in that trade. An individual country may by introducing a higher technique get a chance in international competition, but to the detriment of workers in other countries. But if we take the state of Europe as a whole and her capital as an aggregate we surely find that the scarcity of capital, resulting from the war, is emphasised by its being invested in the instruments of a higher technique, and that, even if every country had stabilised its monetary system, the unemployment and comparative overproduction would remain among us for a time.

VIII

Technical evolution aims at making manual labour superfluous; the economists have not paid much attention to this fact, shelving it by a reference to an ever-increasing consuming power. Still, experience has proved it: hard labour is now a relatively rare occurrence, and the census shows an increase in those occupations not exacting hard manual effort. The last twenty years have witnessed such technical wonders—and there is no reason to believe that the rate of inventions will slacken—that it is admissible to predict that industry will dispense with a vast amount of manual labour. And inventions are materialising at such a rate that capital accumulation cannot keep pace. The

history of dying trades and methods predicts the fate of those men actually engaged in such trades and not able to shift over to other occupations.

Some novelists imagine a state where the superfluous labour is gradually dying out in a world where the device of production is: press the button.

But even if there is a limit to the amount of commodities which the plutocracy can desire, there is no limit to the amount of personal attendance and services we require. Roman history and the court of Louis le Soleil give evidence of a number of valets, dancers, people who provide manicure and massage, artists and teachers connected with a millionaire's household, beyond the dream of a madman. Among his *domestici*, house-slaves, the Roman plutocrat about the time of our Lord kept Greek slaves, who even had the education of philosophers. The theatre occupies an increasing number of persons; the professional journalist is multiplying in numbers, and if we turn to the trading classes, the retailers, the agents and the clerks are increasing according to the formula of Malthus. If we remember that half the price which the ultimate consumer pays for a commodity is commercial costs, putting together the cost of distribution at all the stages through which merchandise passes from raw material to finished article, we understand why the commercial classes bear an ever-growing proportion to the producers. Our capacity for production outruns greatly our capacity for distributing the goods, and something may be said for the assertion, that the advantages of technical progress have been swallowed by the cost of an ever more complicated and irrational mode of distribution.

If you ask about occupations for an increased population, I point out in reply that neither industry nor agriculture will give employment to the unborn surplus. A few decades will show us half of the population occupied in a third category, comprising persons offering personal services or connected with commerce. The increase in the second category (industrial) will mainly consist of transport workers (Mr. Stephenson calculates to-day two million men connected with all kinds of English transport) and of supervising and controlling staff. In the German dye-stuff and explosive industry one out of six employees has the status of an official. The elimination of manual labour may have some political bearing on the future of the Labour Party, but this is outside the scope of this article.

L. V. Birck

University of Copenhagen.

THE CRISIS IN THE LANCASHIRE COTTON INDUSTRY

I

Owing to a lack of adequate statistics the Lancashire cotton industry is unable to determine whether the causes of the prolonged crisis through which it is passing are temporary or permanent, or the extent to which different sections of the industry are affected. What is known is that the crisis is especially acute among the spinners of American cotton, whose spindles represent about two-thirds of the total spindles of the industry.

No authoritative figures of the production of cotton yarn in this country are available; in order, therefore, to compare the position since 1920 with the position in 1913, an estimate has had to be made by transforming the statistics of cotton consumed into statistics of yarn produced. Making certain allowances, the transformation has been made at the probably low ratio of 100 : 87, and the following table, which also includes figures of the exports of yarn and cloth, is the result.

United Kingdom

Production of Yarn (Estimated); Exports of Cotton Piece Goods and Exports of Yarn

Year. (In each case	Production of Yarn Quantities. 1913 = 100.)	Exports of Cotton Piece Goods Quantities: unit, linear yard.[1]	Exports of Yarn Quantities.
1913 . . .	100	100	100
1920 . . .	79	65	70
1921 . . .	50	43	69
1922 . . .	71	61	96
1923 . . .	64	61	69
1924 . . .	70	65	78
1925 . . .	78	66	90

[1] The use of the unit used, the linear yard, is becoming unsatisfactory since the average width of cloth exported is increasing. This applies particularly to S. American markets.

It appears from this table that the average production of yarn in the years 1922–25 was about 71 per cent. of the 1913 production; while the exports of piece goods and yarn were about 63 per cent. and 83 per cent. respectively of the 1913 exports.

Omitting the year 1925, there appears to have been no marked change from the relation between home trade and export trade which existed in 1913.[1] The figures for 1925 suggest that in that year the home trade became relatively more important, but a definite assertion cannot be made because of lack of information concerning stocks. Moreover, it may be that increasing quantities of cotton yarn are being exported mixed with other materials, *e.g.* artificial silk. The relation between home and foreign trade is indicated in the following table in which exports of piece goods and yarn are expressed in terms of yarn.

ESTIMATED PRODUCTION AND EXPORT OF YARN FOR UNITED KINGDOM. MILLIONS OF LBS.*

Year.	Estimated Total Yarn Spun.	Estimated Yarn Exported.	Per cent. of Yarn Exported.
1913 . . .	1,936	1,432	74
1920 . . .	1,515	960	63
1921 . . .	948	679	72
1922 . . .	1,337	981	73
1921 . . .	971	677	70
1922 . . .	1,368	981	72
1923 . . .	1,230	895	73
1924 . . .	1,352	942	70
1925 . . .	1,492	990	66

* The first four lines of this table are taken from an article in *The Board of Trade Journal* (May 1923). The remainder of the table has been calculated on a somewhat different basis. A comparison of corresponding years shows that the difference in results is extremely small.

Here it is necessary to observe that statistics of the volume of exports, unless accompanied by some information of average quality, may create a wrong impression of the real importance of any decline or increase. There can be little doubt that, as compared with the pre-war period, there has been an improvement in the quality of the exports. The average yard of cloth exported to-day appears to be something finer than the average yard exported in 1913. If no other evidence were available, the views of shipping merchants who have given an opinion on this point would be strong indication of a change. These views, however, may be supplemented by statistical information. The facts that the exports of yarn have, since 1920, become increasingly concentrated in the higher counts, and that, of the exports of

[1] This point is considered in more detail in a paper read before the Manchester Statistical Society, January 1927, published by Messrs. Heywood, Manchester.

piece goods, a larger proportion now consists of "finished" goods than before the war, are, perhaps, only of minor importance.

Of greater importance is the fact that the decline in exports has been more than proportional to those markets in which the pre-war exports were of the lowest values. In the following table an analysis has been made of the 53 most important markets, and a threefold grouping has been employed according to the value per 1000 yards of the exports to each individual market in 1913. The percentage decline for each of the three groups has then been determined, with the following results :

CLASSIFICATION OF FIFTY-THREE IMPORTANT EXPORT MARKETS ACCORDING TO VALUE PER 1000 YARDS OF EXPORTS IN 1913, SHOWING PERCENTAGE DECLINE IN EACH GROUP

Group of Markets with 1913 Value per 1000 yds.	Total Exports of Cotton Piece Goods in Linear Yardage to each Group. (1913 = 100.)	
	1913.	1922–24.
Up to £14	100	50
£14 to £17	100	56
£17 and above	100	114

From the table it appears that the greatest percentage decline in exports has taken place in those markets which before the war were taking the cheapest goods. Consequently the result must be to raise the average quality and real values of the total exports.

A different distribution of exports over the various markets is not, however, the only reason for an increase in real values. There has been, beyond this, an improvement in the quality of cloth demanded even in those markets to which exports have not declined. The average value (per 1000 yards) of exports to certain markets has improved because the decline in exports to those markets has been greater in the poorer than in the better classes of goods, and this increase has been almost matched in other markets by a general all-round increase in the quality of cloth demanded. This is shown in table on p. 36.

This grading up of quality is, therefore, revealed as the cumulative result of several distinct factors, each or all of which may have operated in any individual market.

1. Taking the total exports of cotton piece goods the decline has been greater in the cheaper classes of goods.

2. The decline in exports has been more marked in the markets taking cheaper classes of goods.

3. In certain markets to which exports have declined to the greatest extent, the decline has been more than proportional in the cheaper classes of goods.

4. In certain markets where no important decline has occurred the quality has improved.

This improvement in the average quality of the exports of cotton goods is an important consideration. If the decline has taken place mainly in goods of poorer qualities, then that decline is probably less serious, measured in term of profit and employment, than if it had occurred in goods of higher qualities. The real decline in exports will, therefore, be represented more accurately by the changes which have taken place in values (allowance being made for the change in the general price level since 1913) than by changes in physical quantity.

INCREASE BETWEEN 1913 AND 1922–24 IN AVERAGE VALUE (PER 1000 YARDS) OF EXPORTS OF COTTON PIECE GOODS TO PREVIOUS THREE GROUPS OF MARKETS

Groups of Markets with 1913 Values per 1000 yds.	Average Value in 1913.	Average Value in 1922–24.	Per cent. Increase in Average Value.
	£	£	
Up to £14 . .	11·75	26·20	123
£14 to £17 . .	16·00	37·40	134
£17 and above	20·80	45·04	117

One method of making allowance for changes in the quality of cloth exported is to discover what changes of value have occurred in cloths which have not changed in quality. For this purpose several shipping merchants have supplied the prices of a number of comparatively important lines which were exported in 1913 and which were still dealt with in 1922–24 in quantity, and which have not appreciably changed in quality in the interim. The index figure so obtained is placed below alongside the changes in the average value of the total exports as obtained from the total export and total value figures recorded in the Official Returns.[1]

[1] This method has certain drawbacks which are considered in the paper previously mentioned.

AVERAGE VALUE OF COTTON PIECE GOODS EXPORTED FROM UNITED KINGDOM. (1913 = 100)

Year.	Average Value of Standard Cloths.	Average Value of Total Exports.
1913	100	100
1922	200	239
1923	202	234
1924	215	241

The inference to be drawn from the tables is therefore that, whereas the price of standard cloths for export increased 106 per cent. between 1913 and 1922–24, the average value of total exports increased 138 per cent. over the same period. The total annual average value of exports of cotton piece goods 1922-24 was £144,712,240, which, reduced to the 1913 value by the index of standard cloth prices, gives £70,200,000. Thus the following comparison can be made :

EXPORTS OF COTTON PIECE GOODS FROM UNITED KINGDOM

Year.	Linear Yardage. Millions.	Value at 1913 Levels. £ms.
1913	7,075	97·8
1922–24	4,396	70·2
Per cent. 1922–24 of 1913 . .	62	72

This result is of considerable importance. Measured by real value (probably a more accurate index of profit and employment than yardage or weight) exports of cotton piece goods in 1922–24 were 72 per cent. of the amount in 1913. It is impossible to determine whether similar changes in quality have taken place in the home market, but the changes in fashion suggest that here also there may have been a similar movement. It appears, therefore, that if the 1922–25 production of the Lancashire cotton industry were valued at 1913 prices, the percentage reduction in value would be appreciably less than the percentage reduction in the volume of output.

II

The significant fact about the decline in the volume of production and exports is that it cannot be attributed to a corresponding decline in the consumption of the various markets. Actually

consumption in the foreign markets appears to be as great now as it was before the war. This is less surprising when it is borne in mind that a large proportion of the cloth used in the world is still produced under domestic conditions. Especially is the statement true of the Far Eastern countries, which constitute the largest group of markets for British piece goods, and in which the demand has shrunk to the greatest extent.

PERCENTAGE DISTRIBUTION OF PIECE GOODS EXPORTED

Groups of Markets.	1913.	1920.	1921.	1922.	1923.	1924.	1925.
Far East . . .	61·6	47·8	48·0	45·6	44·2	47·5	41·8
Near East . . .	10·2	15·8	18·1	13·1	13·7	12·8	14·3
South America .	9·5	11·4	7·3	8·4	11·8	10·6	12·5
Self-governing Dominions .	5·6	6·3	6·9	9·2	8·0	6·6	6·8
Europe	5·2	8·2	5·6	12·7	7·6	9·6	10·3
Africa	4·8	6·1	6·0	5·9	6·4	6·1	7·9
United States . .	0·6	2·2	1·8	2·2	4·0	3·4	1·9
Others	2·5	2·2	6·3	2·9	4·3	3·4	4·5
All	100	100	100	100	100	100	100
Total in million yds.	7,075	4,613	3,038	4,313	4,324	4,585	4,637

QUANTITIES OF PIECE GOODS EXPORTED
(1920–25 as percentage of 1913)

Groups of Markets.	1913. (000 yds.)	1920.	1921.	1922.	1923.	1924.	1925.
Far East	4,357,711	51	31	45	44	50	44
Near East	721,420	101	76	78	82	78	91
South America . .	672,864	78	33	54	76	70	83
Self-governing Dominions . . .	393,220	74	53	101	82	76	81
Europe	369,774	102	46	149	89	119	130
Africa	333,243	81	53	71	80	84	105
United States . . .	44,415	230	126	218	387	360	199

"China," we learn from an American investigator, "is to a considerable extent independent of foreign piece goods. Whenever the price of the latter rises there is an increase of hand-loom weaving throughout the country to supply the demands of the people whose buying power is limited and a large part of whom are quite content to use the native cloth for their clothing."

In 1922–26 about 30 per cent. of the cloth available for consumption in India was woven on hand-looms, and a further 34 per cent. in native weaving sheds.

Assuming that the consumption of cotton cloth has not diminished it follows that the reduction in the volume of exports of British cotton goods has been off-set in foreign markets either by an increase in hand-loom production or by increased activity of rival textile industries. Actually the following statistics (based upon information collected by the League of Nations) indicate that international trade in cotton goods is less than in pre-war days, and they also serve to show the extent to which the percentage share of the United Kingdom has diminished.

EXPORTS COTTON PIECE GOODS IN METRIC TONS—ANNUAL AVERAGES

Country.	(1) 1909-13.	(2) 1921-25.	Per cent. (2) of (1).
United Kingdom	526,837	346,000	66
Japan	10,332 [2]	74,374	721
Italy	40,394	44,950	111
Belgium	27,326 [1]	23,191 [3]	85
British India	7,447	13,516	182
France and Germany	80,576 [4]	59,746	74
U.S.A.	33,465	45,144	135
Total	726,377	606,921	84
Percentage share of United Kingdom	73	57	

[1] 1910–13.

[2] 1909–11. This very much exaggerates the percentage increase between 1909–13 and 1921–25.

[3] 1922 omitted.

[4] France pre-war based on single year 1913.

Evidently in some markets the competition of internal sources of supply has had a more serious effect upon British exports than the competition of external sources. But, as the following table shows, this external competition is sufficiently serious: the progress of Japan in India, China and the Dutch East Indies is especially striking, and, in Egypt, the growth of Italian competition, though it is largely confined to dyed goods, is worthy of notice.

PERCENTAGE SHARE OF GREAT BRITAIN AND HER MOST IMPORTANT COMPETITORS IN TOTAL COTTON PIECE GOODS IMPORTED INTO CERTAIN MARKETS

(Percentages based upon weight)

Year.	India.		China.[1]		Egypt.		Dutch East Indies.[2]			Argentine.		Brazil.		U.S.A.	
	G.B.	Japan.	G.B.	Japan.	G.B.	Italy.	G.B.	Netherlands.	Japan.	U.K.	Italy.	U.K.	U.S.A.	U.K.	Japan.
1911	96	*	—	—	86	7	48	41	*	—	—	72	2	80	*
1912	97	*	55	18	90	5	46	45	*	—	—	69	2	78	3
1913	97	*	50	23	89	6	45	45	*	53	27	71	3	72	4
1921	87	10	27	57	88	8	36	32	19	—	—	69	7	50	8
1922	92	6	32	54	85	11	36	34	17	—	—	76	9	64	9
1923	90	7	28	59	76	17	33	33	18	50	21	73	6	81	5
1924	89	9	30	58	69	21	33	26	25	46	28	72	9	85	6
1925	86	13	—	—	61	23	35	26	25	—	—	—	—	83	5

[1] Great caution must be used with the figures for China, since the presence of Hong Kong as a great distributing centre renders all trade returns unsatisfactory.
[2] Proportions based on values, Java and Madura only. Trade on Private Account.
— Figures not available.
* Proportion less than 1 per cent.

The increasing activity of the cotton industries of U.S.A. and Japan is indicated by the statistics of mill consumption of cotton.

ESTIMATED MILL CONSUMPTION OF COTTON IN MILLIONS OF LBS.

Country.	Annual Average, 1911–13.	Annual Average 1920–25.
Great Britain	2,125	1,518
Japan	617	1,061
U.S.A.	2,568	3,001

Based on Statistics of International Federation of Master Cotton Spinners.

This increase in competition appears to be a permanent change to which the British cotton industry will have to adapt itself. Before the war the possibility of foreign competition was discussed and, indeed, its actual existence bemoaned. It appears, however, that prior to 1914 foreign competition was not a pressing and urgent question.

This conclusion is suggested by a comparison of the present depression in the cotton industry with the depressions which occurred periodically before the war. A consideration of the exports of cotton piece goods in the years 1888–1913 reveals the significant fact that abnormal changes in the proportions of

"greys"—the cheapest class of goods—are not to be found concentrated in either "boom" years or "depression" years. This is clearly brought out if the "boom" years—1890, '94, '99, 1906, '13—are taken as one group and the "depression" years—1893, '97, 1900, '03, '08—are taken as another.

CLASSIFICATION OF EXPORTS OF COTTON PIECE GOODS FROM UNITED KINGDOM. 1888–1913.

	Grey.	Finished.	Total.
Boom years .	39	61	100
Depression years	38	62	100

Before the war, therefore, ignoring the secular trend in the character of exports, there was no marked tendency for the years of poor trade to be years when exports of grey goods were abnormally reduced. This fact suggests that at that time depressions in the Lancashire cotton export trade were not due to competition. If they had been due to this factor a greater proportionate reduction in the exports of coarse goods might have been expected, since competition would first have made itself felt in that section of the trade. That there was not this reduction is presumptive evidence that the pre-war depressions were mainly due to a general decline in demand which was spread fairly evenly over goods of all types. Since 1914 competition has developed to an extent and power previously unknown, and its effects are seen in a decline of demand for British cotton goods, concentrated on the coarser and cheaper types.

It should not be assumed, however, that the competition of Japan, India and U.S.A. is altogether the result of the changes which have taken place since 1914. It is probable that some increase in the scope and severity of competition would have been witnessed even if the war had not occurred to produce the disorganisation which gave rival textile industries fuller opportunities. The table on p. 42 indicates the growth of spindles and looms in India, Japan, Italy and U.S.A. in the years before and after the war.

The statistics of spindles and looms may be supplemented by statistics of the consumption of raw cotton and of the production of yarn and cloth in India and Japan.

Estimated Number of Spindles and Looms in India, Japan, Italy, U.S.A.[1] (1913 = 100)

Year.	India.		Japan.		Italy.	U.S.A.	
	Spindles.	Looms.	Spindles.	Looms.	Spindles.	Spindles.	Looms.
1905	78	53	57	34	—	80	83
1910	94	88	87	73	91	90	—
1913	100	100	100	100	100	100	100
1920	103	127	158	209	98	111	—
1921	104	132	173	227	99	114	—
1922	111	143	187	251	100	115	—
1923	120	154	174	254	100	116	116
1924	126	161	202	265	101	117	—
1925	131	—	219	297	104	118	—

[1] Based on figures:
India: Bombay Cotton Mill Owners' Year Book.
Japan Japan Cotton Spinners' Association, Osako.
Italy: International Federation Master Cotton Spinners.
U.S.A.: Statistical Abstract of U.S.A. Bureau of Census.

Average Annual Production of Yarn and Cloth and Consumption of Cotton in India[1]

Year.	Cotton Consumption, 000's cwts.	Production of Yarn, 000's cwts.	Production of Cloth, Million lbs.
1900- 4	5,642	4,632	116
1905- 9	6,988	5,729	174
1910-14	7,091	5,773	260
1915-18	7,141	5,918	348
1920-25	7,242[(a)]	5,987	404

[1] Statistics of Bombay Cotton Mill Owners' Association. [(a)] 1920-24.

Average Annual Production of Yarn and Cloth and Consumption of Cotton in Japan[1]

Year.	Cotton Consumption in millions of lbs.	Production of Yarn in thousands of bales.	Production of Cotton Piece-goods in millions of yds.[(a)]
1905- 9	448	948	143
1910-14	643	1,360	346
1915-19	872	1,867	611
1920-24	950	2,032	873

[1] Statistics of Japan Cotton Spinners' Association, Osaka.
[(a)] Sub-work by spinners only.

From these tables it seems evident that the future of some of Lancashire's markets for cotton goods was being determined before the war. Growth such as that in the industries of India and Japan was bound sooner or later to affect the position of the Lancashire cotton industry. While, therefore, increased competition impresses as a new factor, its steady growth suggests that it is a permanent factor.

III

During the past three years in the cotton industry prosperity has jostled imminent bankruptcy. The incidence of the depression has been unevenly spread over the different sections of the trade. It is impossible to determine exactly how far this is due to the varying capacities which the sections have shown in adapting themselves to post-war conditions, or how far it is the result of more fundamental differences. Available information suggests two or three causes of the varying degrees of economic pressure upon spinners, weavers, finishers and merchants.

The decline in the total production of yarn and cloth must have affected to some extent all the sections. But the fact that the decline in production has probably been greater by volume than by value suggests that its effects will have been less seriously felt by those sections of the trade, *e.g.* merchants, and other classes of dealers, whose returns depend more upon values and turnover, than upon those sections whose returns depend more upon volume of output. The improved average quality of production will, no doubt, have involved an increase in manufacturing costs, but it will also have involved the use of more expensive materials, and more expensive finishing processes. While all classes of goods have been affected by the decline in the volume of exports, "finished" goods have fared rather better than "unfinished" goods.

The "Finishers'" combines have throughout the depression made much higher profits than their average profits before the war. Attacks have from time to time been made upon the combines on the ground that their prices have been unduly increased, but there are many difficulties in the way of estimating the extent to which the attacks are warranted: available statistics can only be used with caution. In some cases the basis of charging for finishing has changed since pre-war days; in other cases it is asserted that the quality of finishes has changed sufficiently to justify the increased prices. Moreover, it may be

that the increased profits of the combines are due, not so much to an exercise of monopoly power, as to a discreet use of financial resources since 1914, coupled with a more appropriate utilisation of available plant. Whether, when all these arguments have been taken into account, the combines can still be accused of unduly increasing their prices is one of the questions which the Balfour Committee, which has had evidence from all sections of the cotton industry, may be expected to answer. Certainly this section of the industry, which is peculiarly suited to the existence of combines, has effectively looked after itself.

Turning to the production of cloth in the grey, it is apparent that the more than proportionate decline in the export of coarser cloths will have fallen heavily on those areas in Lancashire which before the war were engaged—either in spinning or weaving—in the production of these goods. Owing to a tendency to depart from the extreme specialisation which existed before the war, the geographical distribution of the depression has been somewhat less definitely localised, especially in weaving, than might have been expected. Generally the Egyptian, the fine spinning section, has been in a better position than the American, the medium and coarse spinning section. The average monthly percentage unemployment figures, including short time, among spinners in Bolton—the centre of the fine spinning section—was only five between 1922–25.[1]

Directly comparable statistics for Oldham—the centre of the coarse spinning section—are not available, but in the same years the monthly average percentage of operative spinners "on the funds," *i.e.* losing more than three days' work per week, was about 12·5 per cent. The Secretary of the Operative Spinners' Association, who provided the figures, estimates that the proportion of time lost by his members between 1921–25 was not far short of 50 per cent.[2] Similar differences are to be found as one passes from one area to another of the weaving industry. In Blackburn, where the principal product is coarse dhooties, the average monthly percentage of looms stopped was about 21 per cent. between 1922 and 1925,[3] whilst in centres such as Colne, Leigh and Preston,

[1] Figures provided by the Secretary, Operative Cotton Spinners' Association for last week in each month. For 1926 it is estimated that the production of the Egyptian section was about 85 per cent. of its capacity and of the American section about 60 per cent.

[2] This estimate is based on the percentage unemployment revealed by the fall in members' subscriptions.

[3] Figures provided by the Secretary, Weavers, Winders and Warpers Association, Blackburn.

where the finest goods are woven, the number of looms stopped throughout the depression has been insignificant.

An exact comparison of the extent to which the weaving and the spinning sides of the industry have felt the depression would throw much light on the causes of the general decline. Nothing short of a general census of the industry would supply the comparison; only little has been heard of the difficulties of the weavers, though it is known that they are considerable. This side of the industry consists largely of private firms or private companies and its troubles are, therefore, not much aired in public. Further, its organisation is not so complete as that of the spinners, and no systematic plan of short time has been adopted as in the spinning section. The piling up of prior charges, which has taken place in the spinning section since the post-armistice boom, may have had its counterpart in the weaving in the decreasing personal wealth of the private owners of the numerous firms. So far as the volume of output is concerned, the fact that exports of unwoven yarn have fallen to a less degree than the production of yarn suggests that the production of cloth has decreased to a greater extent than the production of yarn.

On the other hand, certain general considerations suggest that the weaving section may have suffered less loss than the spinning. The increased use of artificial silk yarn is a partial explanation, since it tends to increase activity of looms while it decreases that of cotton spindles. The percentage of looms stopped in Blackburn, which town, as already noticed, must have been severely hit by the depression, since it is largely confined to the weaving of dhooties, has not, in the circumstances, been remarkably high.

Year.	Percentage of looms stopped in Blackburn.[1]
1922	29
1923	26
1924	16
1925	15

[1] Figures for last Saturday in each month. Number of looms covered approximately 90,000. The number of stopped looms is a better index of the state of unemployment among weavers than unemployment statistics, since an adult weaver, whose normal complement of looms is four, may be—in many cases—operating only two or three.

Most significant of all, the weaving industry is not burdened by heavy fixed interest charges. The wholesale recapitalisation and refloatation movement was confined almost entirely to spinning

companies and did not affect to any great extent weaving concerns. Therefore, in these concerns, margins will pass directly to profits instead of being swallowed up by prior charges for debentures, loans and bank over-drafts.

Certainly, declared dividends show a marked difference between those spinning concerns which have been refloated and those which have not.

DIVIDENDS OF SPINNING COMPANIES [1]

Year.	Original Co.'s.		Recapitalised Co.'s.		Refloated Co.'s.	
	No. of Co.'s.	Average Dividend on paid-up Share Capital. Per cent.	No. of Co.'s.	Average Dividend on paid-up Share Capital. Per cent.	No. of Co.'s.	Average Dividend on paid-up Share Capital. Per cent.
1921	65	13·1	33	8·4	195	2·4
1922	65	8·95	34	6·64	202	1·3
1923	65	4·48	36	6·12	209	0·72
1924	65	4·70	36	5·89	214	0·79
1925	65	13·25	35	8·66	212	2·25
1926	65	9·6	34	7·1	213	1·4

[1] Based on information contained in Annual Reviews of the Textile Trade published by the *Oldham Chronicle*.

The argument that this table suggests is not completely conclusive. Nevertheless, it lends support to the view that the present difficulties in the cotton industry are most acute in that part of the spinning section which refloated in 1919–20. Unfortunately, about 40 per cent. of the spindles in the industry were involved in either recapitalisation or refloatation, and this is a sufficiently large proportion to account for the widespread phenomenon of "weak" selling. The probability is that many of these refloated concerns must sell in order to meet fixed interest charges and consequently create difficulties even for those concerns which still retain the designation of "original" companies.

G. W. DANIELS
J. JEWKES

A CONTRIBUTION TO THE THEORY OF TAXATION

THE problem I propose to tackle is this: a given revenue is to be raised by proportionate taxes on some or all uses of income, the taxes on different uses being possibly at different rates; how should these rates be adjusted in order that the decrement of utility may be a minimum? I propose to neglect altogether questions of distribution and considerations arising from the differences in the marginal utility of money to different people; and I shall deal only with a purely competitive system with no foreign trade. Further I shall suppose that, in Professor Pigou's terminology, private and social net products are always equal or have been made so by State interference not included in the taxation we are considering. I thus exclude the case discussed in Marshall's *Principles* in which a bounty on increasing-return commodities is advisable. Nevertheless we shall find that the obvious solution that there should be no differentiation is entirely erroneous.

The effect of taxation is to transfer income in the first place from individuals to the State and then, in part, back again to rentiers and pensioners. These transfers will slightly alter the demand schedules in a way depending on the incidence of the taxes and the manner of their expenditure. I neglect these alterations;[1] and I also suppose that "a given revenue" means a given money revenue, "money" being so adjusted that its marginal utility is constant.

This problem was suggested to me by Professor Pigou, to whom I am also indebted for help and encouragement in its solution.

In the first part I deal with the perfectly general utility function and establish a result which is valid for a sufficiently small revenue, and takes a peculiarly simple form if we can treat the revenue as an infinitesimal. I prove, in fact, that in raising an infinitesimal revenue by proportionate taxes on given commodities the taxes should be such as to diminish in the same proportion the production of each commodity taxed.

In the second part I assume that the utility function is quadratic, which means roughly that the supply and demand

[1] The outline of a more general treatment is given in the Appendix.

curves are straight lines, but does not exclude the most general possibilities of joint supply and joint demand. With this assumption we can show that the rule given above for an infinitesimal revenue is valid for any revenue which can be raised at all.

In the third part I give certain important special cases of these general theorems; and in part four indicate certain practical applications.

Part I

(1) I suppose there to be altogether n commodities on which incomes are spent and denote the quantities of them which are produced in a unit of time by $x_1, x_2 \ldots x_n$. Some of these commodities may be identical, save for the place or manner of their production or consumption; *e.g.*, we can regard sugar used in tea as a different commodity from sugar used in coffee, and corn grown in Norfolk as different from that grown in Suffolk. In order to avoid double reckoning we suppose that these commodities are all either consumed or saved; *e.g.*, we include household coal, but not industrial coal except in so far as an increase in the stock of industrial coal is a form of saving, so that this rate of *increase* can form one of our quantities x. The quantities $x_1, x_2 \ldots$ can be measured in any convenient different units.

(2) We denote by $u = F(x_1 \ldots x_n)$ the *net* utility of producing and consuming (or saving) these quantities of commodities. This is usually regarded as the difference of two functions, one of which represents the utility of consuming, the other the disutility of producing. But so to regard it is to make an unnecessary assumption of independence between consumption and production; to assume, for instance, that the utility of a hot bath is the same whether one does or does not work in a coal mine. This assumption we do not require to make.

(3) If there is no taxation stable equilibrium will occur for values of the x's which make u a maximum. Let us call these values $\bar{x}_1, \bar{x}_2 \ldots \bar{x}_n$ or collectively the point P. Then at P we have

$$\frac{\partial u}{\partial x_r} = 0 \qquad\qquad r = 1, \ldots n.$$

$$d^2u = \Sigma\Sigma \frac{\partial^2 u}{\partial x_r \partial x_s} dx_r dx_s \text{ is a negative definite form.}$$

Suppose now taxes are levied on the different commodities

at the rates $\lambda_1, \lambda_2 \ldots \lambda_n$ per unit in money whose marginal utility is unity. Then the new equilibrium is determined by

$$\frac{\partial u}{\partial x_r} = \lambda_r{}^{1} \qquad r = 1, \ldots n \quad . \quad . \quad . \quad . \quad (1)$$

In virtue of these equations we can regard the λ's as functions of the x's, which vanish at P, and satisfy identically

$$\frac{\partial \lambda_r}{\partial x_s} = \frac{\partial \lambda_s}{\partial x_r} \cdot \left(= \frac{\partial^2 u}{\partial x_r \partial x_s}\right) \quad . \quad . \quad . \quad . \quad . \quad . \quad (2)$$

Also the revenue $R = \Sigma \lambda_r x_r$.

We shall always suppose R to be positive, but there is no *a priori* reason why some of the λ's should not be negative; they will then, of course, represent bounties.

(4) Our first problem is this: given R, how should the λ's be chosen in order that the values of the x's given by equations (1) shall make u a maximum.

I.e., u is to be a maximum subject to $\Sigma \lambda_r x_r = R$ $\left(\text{where } \lambda_r \text{ is } \frac{\partial u}{\partial x_r}\right)$

We must have

$$0 = du = \Sigma \lambda_r dx_r \text{ for any values of } dx_r$$

subject to

$$0 = dR = \Sigma \lambda_r dx_r + \sum_r \sum_s x_s \frac{\partial \lambda_s}{\partial x_r} dx_r,$$

and so we have

$$\frac{\lambda_1}{\sum_s x_s \frac{\partial \lambda_s}{\partial x_1}} = \frac{\lambda_2}{\sum_s x_s \frac{\partial \lambda_s}{\partial x_2}} = \quad = \quad = \frac{\lambda_n}{\sum_s x_s \frac{\partial \lambda_s}{\partial x_n}} \quad . \quad . \quad (3)$$

$$= \frac{R}{\Sigma\Sigma \frac{\partial \lambda_s}{\partial x_r} x_r x_s} = -\theta \text{ (say).}$$

(5) These equations determine values of the x's which are critical for u, and it remains to discuss the possibility of a plurality of solutions and to determine conditions under which they give a true maximum. We shall show that if R is small enough they will have a unique solution $x_1, x_2 \ldots x_n$, which tends to $\bar{x}_1, \bar{x}_2 \ldots \bar{x}_n$ as $R \rightarrow 0$, and that this solution will make u a true maximum.

[1] *E.g.*, if $u = u_1 - u_2$ (consumers' utility − producers' disutility)
$\frac{\partial u}{\partial x_r} = \frac{\partial u_1}{\partial x_r} - \frac{\partial u_2}{\partial x_r}$ = demand price of rth commodity − supply price = tax.

For, since $d^2u = \Sigma\Sigma\frac{\partial\lambda_r}{\partial x_s}dx_rdx_s$ is negative definite at P, $(-)^n\frac{\partial(\lambda_1, \lambda_2 \ldots \lambda_n)}{\partial(x_1, x_2 \ldots x_n)}$ is positive at, and therefore near, P. Hence we can express the x's as functions of the λ's. The equations (3) then become

$$\lambda_r = R\psi_r(\lambda_1, \ldots \lambda_n) \qquad r = 1, 2, \ldots n.$$

For the denominator $\Sigma\Sigma\frac{\partial\lambda_s}{\partial x_r}x_rx_s$ is a negative definite form with d^2u and so cannot vanish near P (and therefore also $\theta > 0$). The Jacobian of these last equations with regard to the λ's will tend to 1 as R tends to 0, and they will therefore have a unique solution $\lambda_1, \ldots \lambda_n$ which tends to $0, 0 \ldots 0$ as R tends to 0. Hence the equations (3) have a unique solution tending to P as $R \to 0$.

We have now to consider the conditions for a maximum which are obtained most simply by Lagrange's multipliers.

If we consider $u + KR$

we should have $$\frac{\partial u}{\partial x_r} + K\frac{\partial R}{\partial x_r} = 0$$

or $1 + K - \frac{K}{\theta} = 0$ if θ has the meaning it has in equations (3).

or $$K = \frac{+\theta}{1 - \theta}.$$

Then $$d^2u = d^2\left(u + \frac{\theta}{1-\theta}R\right)$$
$$= d^2u + \frac{\theta}{1-\theta}d^2R$$

(calculated as if the variables x were independent[1]), and in a sufficiently small neighbourhood of P we shall have $\theta <$ any assigned positive constant and so $d^2u + \frac{\theta}{1-\theta}d^2R$ negative definite with d^2u. This establishes the desired result.[2]

(6) Suppose now R and the λ's can be regarded as infinitesimals; then putting

$$\lambda_r = \sum_s \frac{\partial\lambda_r}{\partial x_s}dx_s$$

equations (3) give us, using (2),

[1] See, *e.g.*, de la Vallée Poussin, *Cours d'Analyse*, 4th ed., t. 1, p. 119.

[2] Clearly also we shall get a maximum at any point for which d^2R is negative and $\theta < 1$; *i.e.*, if d^2R is everywhere negative (3) will give a maximum for all values of θ up to $\theta = 1$, which gives a maximum of R. This covers the case treated in Part II and so also any case approximating to that.

$$\frac{\sum_s \frac{\partial\lambda_r}{\partial x_s} dx_s}{\sum_s \frac{\partial\lambda_r}{\partial x_s} x_s} = \qquad = \qquad = -\theta = \frac{R}{\Sigma\Sigma x_r x_s \frac{\partial\lambda_r}{\partial x_s}} < 0,$$

and their solution is evidently given by

$$\frac{dx_1}{x_1} = \frac{dx_2}{x_2} = \qquad = \frac{dx_n}{x_n} = -\theta < 0 \quad . \quad . \quad . \quad (4)$$

i.e., the production of each commodity should be diminished in the same proportion.

(7) It is interesting to extend these results to the case of a given revenue to be raised by taxing certain commodities only. If the utility were the sum of two functions, one of the taxed and the other of the untaxed commodities, it is obvious that our conclusions would be the same as before. But in the general case the question is by no means so simple.

Let us denote the quantities of the commodities to be taxed by $x_1 \ldots x_n$, and those not to be taxed by $y_1 \ldots y_n$.

If $\quad \lambda_r = \frac{\partial u}{\partial x_r} \quad$ then λ_r is the tax per unit on x_r,

and if $\quad \mu_r = \frac{\partial u}{\partial y_r}, \ \mu_r = 0 \quad$ (λ's and μ's functions of x's and y's),

also as before

$$\frac{\partial\lambda_r}{\partial x_s} = \frac{\partial\lambda_s}{\partial x_r}, \ \frac{\partial\mu_r}{\partial y_s} = \frac{\partial\mu_s}{\partial y_r}, \text{ and } \frac{\partial\lambda_r}{\partial y_s} = \frac{\partial\mu_s}{\partial x_r} \quad . \quad . \quad . \quad (5)$$

and we have to maximise u subject to

$$\sum_{r=1}^{n}\lambda_r x_r = R, \ \mu_t = 0, \ t = 1, \ldots m.$$

We have

$$0 = du = \sum_r \lambda_r dx_r$$

$$0 = dR = \sum_r \lambda_r dx_r + \sum_s\sum_r x_s \frac{\partial\lambda_s}{\partial x_r} dx_r + \sum_s\sum_t x_s \frac{\partial\lambda_s}{\partial y_t} dy_t$$

$$0 = d\mu_t = \sum_r \frac{\partial\mu_t}{\partial x_r} dx_r + \sum_u \frac{\partial\mu_t}{\partial y_u} dy_u, \qquad t = 1, \ldots m.$$

Solving these last equations ($d\mu_t = 0$) for the dy's we obtain

$$dy_t = \sum_r \chi_{tr} dx_r \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (6)$$

where $$\frac{\partial\mu_t}{\partial x_r} + \sum_{u=1}^{m} \frac{\partial\mu_t}{\partial y_u}\chi_{ur} = 0 \begin{Bmatrix} r = 1, \ldots n \\ t = 1, \ldots m \end{Bmatrix} \quad . \quad . \quad . \quad (7)$$

(The possibility of solution is guaranteed by the discriminants of d^2u not vanishing.)

Whence $$0 = dR = \sum_r dx_r\left(\lambda_r + \sum_s x_s \frac{\partial\lambda_s}{\partial x_r} + \sum_s\sum_t x_s \frac{\partial\lambda_s}{\partial y_t}\chi_{tr}\right).$$

E 2

∴ instead of equations (3) we have

$$\frac{\lambda_r}{\sum_{s=1}^{n} x_s\left(\frac{\partial\lambda_s}{\partial x_r} + \sum_{t=1}^{m}\chi_{tr}\frac{\partial\lambda_s}{\partial y_t}\right)} = \quad = \quad . \quad . \quad (3')$$

It can be shown that these give a maximum of u with the same sort of limitations as equations (3) do.

(8) And if the λ's are infinitesimal

$$\lambda_r = \sum_s \frac{\partial\lambda_r}{\partial x_s}dx_s + \sum_t \frac{\partial\lambda_r}{\partial y_t}dy_t$$

$$= \sum_{s=1}^{n} dx_s\left(\frac{\partial\lambda_s}{\partial x_r} + \sum_{t=1}^{m}\chi_{ts}\frac{\partial\mu_t}{\partial x_r}\right) \text{ by (5), (6).}$$

But $\quad \sum_t \chi_{ts}\frac{\partial\mu_t}{\partial x_r} = -\sum_t\sum_u \frac{\partial\mu_t}{\partial y_u}\chi_{ts}\chi_{ur}$ by (7)

$$= \sum_t \chi_{tr}\frac{\partial\mu_t}{\partial x_s}\ \left(\text{by symmetry since } \frac{\partial\mu_t}{\partial y_u} = \frac{\partial\mu_u}{\partial y_t}\right).$$

So $\quad \lambda_r = \sum_s dx_s\left(\frac{\partial\lambda_s}{\partial x_r} + \sum_t \chi_{tr}\frac{\partial\lambda_s}{\partial y_t}\right)$, since $\frac{\partial\lambda_s}{\partial y_t} = \frac{\partial\mu_t}{\partial x_s}$,

and so equations (3′) are satisfied by

$$\frac{dx_1}{x_1} = \quad = \frac{dx_n}{x_n},$$

i.e., as before the taxes should be such as to reduce in the same proportion the production of each *taxed* commodity.

(9) Further than this it is difficult to go without making some new assumption. The assumption I propose is perhaps unnecessarily restrictive, but it still allows scope for all possible first-order relations between commodities in respect of joint supply or joint demand, and it has the great merit of rendering the problem completely soluble.

I shall assume that the utility is a non-homogeneous quadratic function of the x's, or that the λ's are linear. This assumption simplifies the problem in precisely the same way as we have previously simplified it by supposing the taxes to be infinitesimal. We shall, however, make this new assumption the occasion for exhibiting a method of interpreting our formulae geometrically in a manner which makes their meaning and mutual relations considerably clearer.

It is not, of course, necessary, nor would it be sensible to suppose the utility function quadratic for all values of the variables; we need only suppose it so for a certain range of values round the point P, such that there is no question of imposing taxes large enough to move the production point (values of the

x's) outside this range. If we were concerned with independent commodities, this assumption would mean that the taxes were small enough for us to treat the supply and demand curves as straight lines.

PART II

(10) Let $u = \text{constant} + \Sigma a_r x_r + \Sigma\Sigma\beta_{rs}x_r x_s$, $(\beta_{rs} = \beta_{sr})$, and let us regard the x's as rectangular Cartesian co-ordinates of points in n-dimensional space.

$$\text{The point } P(\bar{x}_1, \ldots \bar{x}_n) \text{ is given by } \frac{\partial u}{\partial x_r} = 0,$$

and at that point

$$d^2u = 2\Sigma\Sigma\beta_{rs}dx_r dx_s \text{ is a negative definite form.}$$

$$\therefore\ \Sigma\Sigma\beta_{rs}x_r x_s \text{ is a negative definite form,}$$

and the loci $u = \text{constant}$ are hyper-ellipsoids with the point P for centre.

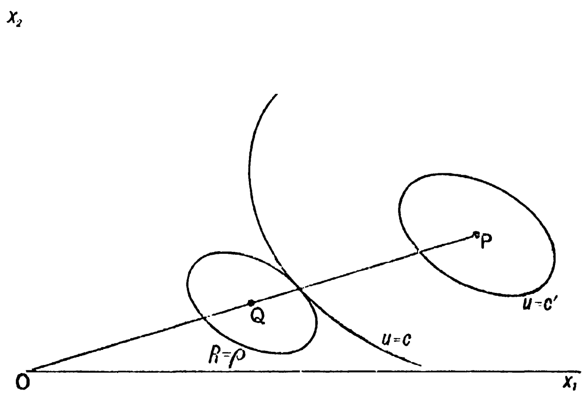
Since
$$\lambda_r = \frac{\partial u}{\partial x_r} = a_r + 2\Sigma\beta_{rs}x_s \quad \ldots\ldots \quad (8)$$

$$R = \Sigma\lambda_r x_r = \Sigma a_r x_r + 2\Sigma\Sigma\beta_{rs}x_r x_s \quad \ldots \quad (9)$$

and the loci $R = \text{constant}$ are hyper-ellipsoids with the point Q, whose co-ordinates are $\frac{1}{2}\bar{x}_1, \frac{1}{2}\bar{x}_2 \ldots \frac{1}{2}\bar{x}_n$, for centre.

(The equations for Q are those for P with their first degree terms doubled and their constant terms unaltered.)

Moreover, the hyper-ellipsoids $u = \text{constant}$, $R = \text{constant}$ are all similar and similarly situated. The figure shows these relations for the case of two commodities only.



(11) If we are to raise a revenue ρ we must depress production to some point on the hyper-ellipsoid $R = \rho$.[1]

[1] We can depress production to any point we please because the connection between the x's and λ's is one-one.

To do this so as to make u a maximum we must choose a point on this hyper-ellipsoid at which it touches an ellipsoid of the family $u =$ constant. There will be two such points which will lie on the line PQ: one between Q and P making u a maximum, the other between O and Q making u a minimum. For the point of contact of two similar and similarly situated hyper-ellipsoids must lie on the line joining their centres. Since the maximum of u is given by a point on OP we have as before that

The taxes should be such as to diminish the production of all commodities in the same proportion.

And this result is now valid not merely for an infinitesimal revenue but for any revenue which it is possible to raise at all.

The maximum revenue will be obtained by diminishing the production of each commodity to one-half of its previous amount, *i.e.*, to the point Q.

(12) If in accordance with this rule we impose taxes reducing production from $\bar{x}_1, \bar{x}_2 \ldots \bar{x}_n$ to $(1-k)\bar{x}_1, (1-k)\bar{x}_2 \ldots (1-k)\bar{x}_n$.

We get from (8) $\lambda_r = a_r + 2(1-k)\sum_s \beta_{rs}\bar{x}_r$,

but at P $\qquad \lambda_r = 0$, so that $0 = a_r + 2\sum_r \beta_{rs}\bar{x}_r$;

therefore $\qquad \lambda_r = ka_r \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (10)$

i.e., the taxes should be in the fixed proportions $\lambda_1 : \lambda_2 : \quad : \lambda_n : : a_1 : a_2 \quad : a_n$ independent of the revenue to be raised.

Also $R = \Sigma\lambda_r x_r = k(1-k)\Sigma a_r \bar{x}_r$,
$= 4k(1-k) \times$ the maximum revenue (got by putting $k = \frac{1}{2}$).

(13) Since k is positive it follows from (10) that the sign of λ_r is the same as that of a_r, and unless the a_r are all positive some of the λ_r will be negative, and the most expedient way of raising a revenue will be by placing bounties on some commodities and taxes on others.

The sort of case in which this might occur is that of sugar and particularly sour fruits, *e.g.* damsons. A tax on sugar might reduce the consumption of damsons more than in proportion to the reduction in the total consumption of sugar and so require to be offset by a bounty on damsons.

(14) We can now consider the more general problem: a given revenue is to be raised by means of fixed taxes $\mu_1 \ldots \mu_m$ on m commodities and by taxes to be chosen at discretion on the remainder. How should they be chosen in order that utility may be a maximum?

We have $\lambda_1 = \mu_1, \ldots \lambda_m = \mu_m$, m hyperplanes ($n - 1$ folds) whose intersection is a plane $n - m$ fold which we will call S. S will cut the hyper-ellipsoids $u =$ constant, $R =$ constant in hyper-ellipsoids which are similar and similarly situated and whose centres are the points P', and Q' in which S is met by the m-folds through P and Q conjugate to S in $u = c$ or $R = c$. As before the required maximum is given by the point of contact of two of these hyper-ellipsoids in S, which must lie upon the line $P'Q'$.

Now the hyperplane $\lambda_1 = \mu_1$ or $\dfrac{\partial u}{\partial x_1} = \mu_1$ is conjugate in $u = c$ to the diameter

$$x_2 = \bar{x}_2,\ x_3 = \bar{x}_3,\ \ldots\ x_n = \bar{x}_n.$$

Hence S is conjugate to the m-fold

$$x_{m+1} = \bar{x}_{m+1},\ \ldots,\ x_n = \bar{x}_n,$$

and the co-ordinates of P' satisfy these equations, since they lie on this m-fold.

Similarly the co-ordinates of Q' satisfy

$$x_{m+1} = \tfrac{1}{2}\bar{x}_{m+1},\ \ldots\ x_n = \tfrac{1}{2}\bar{x}_n.$$

And so the desired production point lying on the line $P'Q'$ satisfies

$$\frac{x_{m+1}}{\bar{x}_{m+1}} = \frac{x_{m+2}}{\bar{x}_{m+2}} = \qquad = \frac{x_n}{\bar{x}_n},$$

i.e., the whole system of taxes must be such as to reduce in the same proportion the production of the commodities taxed at discretion.

PART III

(15) I propose now to explain what our results reduce to in certain special cases. First suppose that all the commodities are independent and have their own supply and demand equations, *i.e.*, we have for the rth commodity the demand price

$$p_r = \phi_r(x_r)$$

and the supply price $\qquad q_r = f_r(x_r).$

$$\therefore \qquad \lambda_r = p_r - q_r = \phi_r(x_r) - f_r(x_r).$$

and equations (3) become, since $\dfrac{\partial \lambda_r}{\partial x_s} = 0$, $r \neq s$,

$$\frac{\lambda_1}{x_1\{\phi_1'(x_1) - f_1'(x_1)\}} = \frac{\lambda_2}{x_2\{\phi_2'(x_2) - f_2'(x_2)\}} \ldots = -\theta.$$

These equations we can express in terms of elasticities in the following way.

Suppose the tax *ad valorem* (reckoned on the price got by the producer) on the rth commodity is μ_r, then

$$\lambda_r = \mu_r q_r = \mu_r f_r(x_r),$$

and $$\phi_r(x_r) = f_r(x_r) + \lambda_r = (1 + \mu_r) f_r(x_r).$$

$$\therefore \qquad \theta = \frac{-\lambda_r}{x_r\{\phi_r'(x_r) - f_r'(x_r)\}} = \frac{+\mu_r}{x_r\dfrac{f_r'(x_r)}{f_r(x_r)} - (1 + \mu_r)x_r\dfrac{\phi_r'(x_r)}{\phi_r(x_r)}},$$

now $x_r\dfrac{f_r'(x_r)}{f_r(x_r)}$ is the reciprocal of the elasticity of supply of the commodity reckoned positive for diminishing returns, and $-x_r\dfrac{\phi_r'(x_r)}{\phi_r(x_r)}$ is the reciprocal of the elasticity of demand, reckoned positive in the normal case.

Hence if we denote by ρ_r and ϵ_r the elasticities of demand and supply,

$$\mu_r = \theta\left(\frac{1}{\epsilon_r} + \frac{1 + \mu_r}{\rho_r}\right)$$

or $$\mu_r = \frac{\left(\dfrac{1}{\epsilon_r} + \dfrac{1}{\rho_r}\right)\theta}{1 - \dfrac{\theta}{\rho_r}} \quad . \quad . \quad . \quad . \quad . \quad . \quad . \quad (11)$$

(valid provided the revenue is small enough, see § 5).

For infinitesimal taxes θ is infinitesimal and

$$\frac{\mu_1}{\dfrac{1}{\epsilon_1} + \dfrac{1}{\rho_1}} = \qquad = \qquad = \frac{\mu_n}{\dfrac{1}{\epsilon_n} + \dfrac{1}{\rho_n}} \quad . \quad . \quad (12)$$

i.e., the tax *ad valorem* on each commodity should be proportional to the sum of the reciprocals of its supply and demand elasticities.

(16) It is easy to see

(1) that the same rule (12) applies if the revenue is to be collected off certain commodities only, which have supply and demand schedules independent of each other and all other commodities, even when the other commodities are not independent of one another.

(2) The rule does not justify any bounties; for in stable equilibrium, although $\dfrac{1}{\epsilon_r}$ may be negative, $\dfrac{1}{\rho_r} + \dfrac{1}{\epsilon_r}$ must be positive.

(3) If any one commodity is absolutely inelastic, either for supply or for demand, the whole of the revenue should be

collected off it. This is independently obvious, for taxing such a commodity does not diminish utility at all. If there are several such commodities the whole revenue should be collected off them, it does not matter in what proportions.

(17) Let us next take the case in which all the commodities have independent demand schedules but are complete substitutes for supply; *i.e.*, with appropriate units the demand price

$$p_r = \phi_r(x_r),$$

the supply price $\qquad q_r = f(x_1 + \qquad + x_n).$

Let us put $\qquad z = x_1 + \qquad + x_n.$

We can imagine this case as that of a country in which all commodities are produced at constant returns by the application of one kind of labour only, the increase in the supply price arising solely from the increasing marginal disutility of labour, and the commodities satisfying independent needs. Then z will represent the amount of labour.

Equations (3) give us

$$-\theta = \frac{\lambda_r}{x_r\phi_r'(x_r) - zf'(z)}.$$

Or if μ_r represents the tax *ad valorem* and ρ_r the elasticity of demand for the rth commodity and ϵ the elasticity of supply of things in general, we get, by a similar process to that of § 15,

$$\mu_r = \frac{\left(\frac{1}{\rho_r} + \frac{1}{\epsilon}\right)\theta}{1 - \frac{\theta}{\rho_r}} \quad . \quad . \quad . \quad . \quad . \quad . \quad (13)$$

If the taxes are infinitesimal we have

$$\frac{\mu_r}{\frac{1}{\rho_r} + \frac{1}{\epsilon}} = \qquad = \qquad = \theta \quad . \quad . \quad . \quad . \quad (14)$$

In this case we see that if the supply of labour is fixed (absolutely inelastic, $\epsilon \to 0$) the taxes should be at the same *ad valorem* rate on all commodities.

(19) If some commodities only are to be taxed it is easier to work from the result proved in § 8 for an infinitesimal revenue, that the production of the commodities taxed should be diminished in the same ratio.

Suppose, then, $x_1, \ldots x_m$ are to be taxed, $x_{m+1} \ldots x_n$ untaxed.

Let $\qquad dx_1 = -kx_1, \ldots, dx_m = -kx_m.$

Let
$$\begin{aligned} z' &= x_1 + x_2 + \ldots + x_m \\ z'' &= x_{m+1} + \ldots + x_n. \\ \lambda_1 &= \phi_1(x + dx_1) - zf(z + dz) \\ &= \phi_1'(x_1)dx_1 - f'(z)dz. \end{aligned}$$

$$\therefore \qquad \mu_1 = \frac{k}{\rho_1} - \frac{dz}{z\epsilon}, \ldots, \mu_m = \frac{k}{\rho_m} - \frac{dz}{\epsilon z},$$

now
$$dz = dz' + dz'' = -kz' + dz'',$$

also
$$0 = -\frac{dx_{m+1}}{\rho_{m+1}x_{m+1}} - \frac{dz}{\epsilon z}.$$

$$\therefore \quad \frac{dx_{m+1}}{\rho_{m+1}x_{m+1}} = \frac{dx_{m+2}}{\rho_{m+2}x_{m+2}} = \frac{dx_n}{\rho_n x_n} = -\frac{dz}{\epsilon z} = \frac{dz''}{\sum_{m+1}^{n}\rho_r x_r} = \frac{kz'}{\epsilon z + \sum_{m+1}^{n}\rho_r x_r}.$$

$$\mu_1 = k\left(\frac{1}{\rho_1} + \frac{\sum_1^m x_r}{\epsilon \sum_1^n x_r + \sum_{m+1}^n \rho_r x_r}\right), \text{ etc.}$$

As before we see that of two commodities that should be taxed most which has the least elasticity of demand, but that if the supply of labour is absolutely inelastic all the commodities should be taxed equally.

Part IV

(20) We come now to applications of our theory; these cannot be made at all exactly without data which I, at any rate, do not possess. The simplest result is the one which we have proved in the general case for an infinitesimal revenue (§ 8); this means that it is approximately true for small revenues, and that the approximation approaches perfection as the revenue approaches zero. It is thus logically similar to the theorem that the period of oscillation of a pendulum is independent of the amplitude. We have also extended the result to any revenue which does not take the production point outside a region in which the utility may be taken to be quadratic, *i.e.*, the supply and demand schedules linear.

The sort of cases in which our theory may be useful are the following:

(21) (*a*) If a commodity is produced by several different methods or in several different places between which there is no mobility of resources, it is shown that it will be advantageous to discriminate between them and tax most the source of supply which is least elastic. For this will be necessary if we are to maintain unchanged the proportion of production between the two sources (result analogous to § 19 with supply and demand interchanged).

(*b*) If several commodities which are independent for demand require precisely the same resources for their production, that should be taxed most for which the elasticity of demand is least (§ 19).

(*c*) In taxing commodities which are rivals for demand, like wine, beer and spirits, or complementary like tea and sugar, the rule to be observed is that the taxes should be such as to leave unaltered the proportions in which they are consumed (§ 14). Whether the present taxes satisfy this criterion I do not know.

(*d*) In the case of the motor taxes we must separate off so much of the taxation as is offset by damage to the roads. This part should be so far as possible equal to the damage done. The remainder is a genuine tax and should be distributed according to our theory; that is to say, it should be placed partly on petrol and partly on motor-cars, so as to preserve unchanged the proportion between their consumption, and should be distributed between Fords and Morrises, so as to reduce their output in the same ratio. The present system fails in both these respects.

(22) (*e*) Another possible application of our theory is to the question of exempting savings from income-tax.[1] We may consider two uses of income only, saving and spending, and supposing them independent we may use the result (13) in § 17. We must suppose the taxes imposed only for a very short time [2] and that they raise no expectation of similar taxation in the future; since otherwise we require a mathematical theory considerably more difficult than anything in this paper.

On these assumptions, since the amount of saving in the very short time cannot be sufficient to alter appreciably the marginal utility of capital, the elasticity of demand for saving will be infinite, and we have

$$\mu_1 \text{ (tax on spending)} = \frac{\left(\frac{1}{\rho_1} + \frac{1}{\epsilon}\right)\theta}{1 - \frac{\theta}{\rho_1}},$$

$$\mu_2 \text{ (tax on saving)} = \frac{1}{\epsilon}\theta,$$

and we see that income-tax should be partially but not wholly remitted on savings. The case for remission would, however,

[1] No account is taken of graduation in this.

[2] Strictly, we consider the limit as this time tends to zero.

be strengthened enormously by taking into account the expectation of taxation in the future.

(23) It should be emphasized in conclusion that the results about "infinitesimal" taxes can only claim to be approximately true for small taxes, how small depending on data which are not obtainable. It is perfectly possible that a tax of 500% on whisky could for the present purpose be regarded as small. The unknown factors are the curvatures of the supply and demand curves; if these are zero our results will be true for any revenue whatever, but the greater the curvatures the narrower the range of "small" taxes.

On the other hand, the more complicated results contained in equations (3), (3′), (11), (13) may well be valid under still wider conditions. But these are, in the general case, too complicated to be worth setting down in the absence of practical data to compare with them.

APPENDIX

We can also say something about the more general problem in which the State wishes to raise a revenue for two purposes; first, as before, a fixed money revenue, R_1, which is transferred to rentiers or otherwise without effect on the demand schedules; and secondly, an additional revenue, R_2, sufficient to purchase fixed quantities, $a_1, a_2, \ldots a_n$ of each commodity.

Let us denote by p_r, q_r, as before, the demand and supply prices of the rth commodity, and the tax on it by λ_r. Then if x_r is the amount of the rth commodity consumed by the public (or by the State out of R_1), $x_r + a_r$ is the amount produced, and we have

$$\frac{\partial u}{\partial x_r} = \lambda_r = p_r(x_1, x_2, \ldots, x_n) - q_r(x_1 + a_1, x_2 + a_2, \ldots, x_n + a_n),$$

$$R_1 + R_2 = \Sigma\lambda_r x_r, \quad R_2 = \Sigma a_r q_r;$$

so that u is to be a maximum subject to

$$\Sigma\lambda_r x_r - \Sigma a_r q_r = R_1 = \text{constant},$$

whence

$$\frac{\lambda_r}{\sum_s x_s \frac{\partial\lambda_s}{\partial x_r} - \sum_s a_s \frac{\partial q_s}{\partial x_r}} = \quad = \quad = -\theta$$

or $$\frac{\lambda_r}{\sum_s (a_s + x_s)\frac{\partial q_s}{\partial x_r} - \sum_s x_s \frac{\partial p_s}{\partial x_r}} = \theta, \text{ which replace equations (3).}$$

Although these equations do not give such simple results as we previously obtained for an infinitesimal revenue or a quadratic utility function, in the cases considered in § 15 and § 17 they lead us again to the equations (11) and (13).

For, taking the case of § 15, in which the commodities are independent both for demand and supply, and, as before, denoting by μ_r the rate of tax *ad valorem* on the rth commodity and by ρ_r, ϵ_r its elasticities of demand and supply for the amounts x_r, $x_r + a_r$ respectively consumed and produced by the public, we have

$$\frac{\mu_r}{\dfrac{x_r + a_r}{q_r} \dfrac{dq_r}{d(x_r + a_r)} - \dfrac{x_r}{q_r} \dfrac{dp_r}{dx_r}} = \theta$$

or

$$\frac{\mu_r}{\dfrac{1}{\epsilon_r} + \dfrac{1 + \mu_r}{\rho_r}} = \theta$$

whence $\mu_r = \dfrac{\left(\dfrac{1}{\epsilon_r} + \dfrac{1}{\rho_r}\right)\theta}{1 - \dfrac{\theta}{\rho_r}}$, which is equation (11) again. And we can similarly derive equation (13) from the assumption of independence for demand and equivalence for supply.

F. P. RAMSEY

THE PAN-EUROPEAN MOVEMENT

Europäische Zollunion: Beiträge zu Problem und Lösung. Edited by DR. HANNS HEIMAN. (Berlin: Verlag von Reimar Hobbing. 1926. Pp. 278.)

Die Vereinigten Staaten von Europa. By WLADIMIR WOYTINSKY. (Berlin: J. N. W. Dietz Nachfolger, 1926. Pp. 186. 4 m.)

VISITING Germany in the autumn of 1921, for the purpose of forming independent opinions of the existing condition of things and of the outlook there, and incidentally of commending to the German official, industrial and banking world the idea of throwing down all customs barriers, at a time so peculiarly favourable, in virtue of reciprocal agreements with other European countries, it was a pleasant surprise to find the latter suggestion welcomed not only by leading representatives of the economic world, but in Government circles. The late Herr Walther Rathenau, then Minister for Economic Policy, in particular assured me that he was quite ready for a new departure on the lines indicated. On returning home I made known in a leading daily journal this unlooked-for change of attitude, and also communicated it to the head of the Government. As a matter of course nothing was done on our part to meet overtures apparently so promising. Why should leaders of opinion in this country trouble about what is being thought and said in other countries? What are such leaders for except to follow public movements—always at a safe distance? The question whether timely response would have checked the later widespread orgy of high-protectionism is, of course, a debatable one. The fact remains, however, that continental countries are to-day more tariff-bound than ever before, while we have retaliated, not unnaturally, by adopting, and in part acting upon, the principle, "Buy only British."

Nevertheless, the simultaneous appearance in Berlin of the books named above is a sign that a current of opinion favourable to freer commercial intercourse is steadily running in Germany, though it is probable that its source is as much political as economic. The idea of a Central European Customs Union goes back in that country for the greater part of a century. It had

been an article of the Pan-Germanist creed long before Dr. Friedrich Naumann, spurred by the London Resolutions, gave to it more definite form during the Great War. To-day Germany is "speaking European" to some purpose, for the Customs Union desired by many of her ideologists, and more generally by the peace party, is one which shall embrace the entire Continent. That is the idea underlying the Pan-European movement inaugurated largely under the influence of Count R. N. Coudenhove-Kalergi, whose first meeting was held in Vienna early in October and was attended by delegates from almost every country in Europe.

The two books before me approach this subject from different standpoints. The larger one, *Europäische Zollunion* ("E.Z.U."), is a collaboration by some twenty contributors of recognised authority as political economists, politicians or social reformers. Its object is less propagandist than expository, and the editor is fairly justified in his claim that the general treatment of this highly controversial problem here offered is "objectively critical," though the writers favourable to the idea of a European Customs Union naturally make the most of their case, and the special interests of Germany are throughout kept well in the foreground. Among the more constructive contributions are those of Dr. Theodor Heuss on "The Influence of War and Peace on the European Problem," Dr. Heinrich Schnee on "The European Customs Union and German Economic Foreign Policy," Economic Councillor Max Cohen on "Protective Duties and Free Trade inside and outside a European Customs Union," Dr. August Müller on "The European Customs Union as a Social Demand," and Herr Richard Riedl on "Possible Ways to a European Economic Partnership"; while the negative or severely critical standpoint is taken by Dr. Franz Eulenburg ("Against the Idea of a European Customs Union"), Dr. Alfred Weber ("Europe as a Centre of World Industry and the Idea of the Customs Union"), and Dr. Gustav Stolper ("State—Nation—Economy").

In judging the prospects of a project so ambitious as this it is of far greater importance to take full account of the difficulties and objections which will have to be faced than to emphasise merits and advantages. Adopting this attitude, Dr. Stolper, in a thoughtful and searching paper, candidly faces the root difficulty, setting out from the postulate that a Union of the kind purposed involves certain far-going presuppositions affecting high State policy; for, far from being a mere measure of mercantile policy, it will intimately affect the entire political structure

of Europe. He reminds the advocates of E.Z.U. that what they really propose—whether they know it or not—is the radical transformation, and even abandonment, of the modern conception of the State, the deliberate weakening of the nexus of nationality, and the conversion of the existing autonomous political territories of Europe into provinces of a sort of super-State, or at best of a federation in which their identity, independence, and economic liberty will be in large degree lost. He bids them remember, therefore, that however strongly economic considerations may seem to speak for customs unity, the scheme will stand or fall by the test not of economic but of political arguments. He also wisely warns impatient Pan-Europeans that the frequent appeals to the example of the United States of America are appeals to a false analogy, and that the conclusions drawn therefrom can hardly fail to obscure counsel and be misleading. Altogether this chapter is an excellent piece of common sense, though, as is the way with all reasoning from fact as opposed to sentiment, it will come as a cold douche to the dreamy phantasist, whose spiritual home is amongst the clouds.

It might seem, indeed, that no time could be less favourable to such a scheme than the present, seeing that, as a consequence of the Great War and the resulting territorial readjustments, the tide of national feeling and passion runs more strongly, both in old and new States, than ever before within living memory; while, as so often after past great military convulsions justified in the name of liberty, liberal ideas in most countries are for the moment under a shadow. As an illustration of the tremendous upheaval which the creation of a European Customs Union would involve, let the reader take this one fact, or accept it as such on the authority of Dr. Arthur Blaustein, who winds up the volume with a useful collection of pertinent statistics. Before the war there were in Europe 26 States, and now there are 35; there were 26 customs areas against 38 to-day, and the 13 currencies have become 27. To convert diversity so great into any sort of unity would be a superhuman task, and the superman, God be thanked, is as dead as the dodo. Nor is it certain that with the introduction of the E.Z.U. the communities affected would benefit materially to the extent that some writers predict. While such a union would introduce free trade within the prescribed customs area, the effect both for the home market and the outer world would simply be that a multiplicity of fiscal barriers would be replaced by a vast, far-spreading circle of

ramparts, possibly far more formidable than any that exist at the present time. Nevertheless, such is the faith which the E.Z.U. idea inspires, that one of the chapters of this book elaborates a complete system of taxation to apply to Europe as so reconstituted, while another explains how the coinage and the existing transport system—land, river, and sea—are to be unified.

A further fact which is bound to hold back the Pan-European movement as applied to economic policy is the conflict of opinion which prevails as to what should be the extent of the proposed amalgamation. Should it comprehend the whole of Europe, or should Great Britain and Russia be left outside? Several of the writers of this book, like Count Coudenhove-Kalergi himself, adopt the latter view, though it is fair to add that the proposed exclusion of this country is due not to hostile feeling, but to recognition of the obvious impossibility of separating Great Britain from the vast extra-European Empire of which she is the centre. Nevertheless, even those who favour a combination from which this country would be excluded appear to be painfully conscious of the difficulties which a policy of exclusion would entail. No writer makes this fact clearer than Dr. Franz Eulenburg, who points to Europe's far-going economic dependence upon tropical and other territories under British rule, and to the fact that exclusion would inevitably strengthen the protectionist movement both in Great Britain and the Dominions, and lead and even compel the Empire to close its doors more than ever to the rest of the world. He even regards as a hollow pretence the plea that a purely continental block "would not be aimed against England." Whether aimed deliberately or not, he says, England would be its principal victim, seeing that about a third of her import and export trade is done with continental Europe. Dr. Eulenburg is no doubt right, though there is the less need to press the objection against the exclusion of Great Britain from any possible European Customs Union, since she is no more likely to wish for admission than Holland, Scandinavia, Switzerland, or (in all probability) Germany herself. It is even probable, as Dr. von Koerner points out in his chapter on the territorial aspect of the question, that the same Imperial considerations which would keep Great Britain out would apply equally to France, if, indeed, not more so, in view of the fact that the French colonies, as provinces, form in fiscal matters an integral part of the mother country.

It will be seen that *Europäische Zollunion* is an extremely interesting piece of work, in which many clever hands have

co-operated, though most English readers will be disposed to class the E.Z.U. with those notions of which the late Eugen Richter, that gallant defender of losing causes in Germany—the last of the die-hard individualists and "Manchester men"—used to speak as "music of the future." Still, however far out of reach or even sight this all-embracing fiscal union may be, it does one good in these dull days to spend an hour or two with courageously speculative writers who are not afraid of taking long views.

The volume which is here associated with Dr. Heiman's symposium may be dealt with more briefly. *Die Vereingten Staaten von Europa* is one man's work, and it puts forward the Socialist case for the formation of a European Customs Union, not as an end in itself, but as a first step towards the constitution of a political complex to be called the "United States of Europe." It is a forcible call to "the democracies of Europe"—democracy here meaning the Labour party—to use while they may the opportunity now afforded by conditions of relative tranquillity for creating such an international status as will conciliate antagonisms and so prevent future armed strife. The writer recognises that solemn treaties and protocols, obligatory courts of arbitration, and reciprocal disarmament conventions will alone be unable to effect this end, and that relief must be sought in the drastic removal of the economic causes which have provoked most of the wars of the past. "The true guarantee of peace," he says, "lies in the economic union of the nations." Accordingly he not only wants a European Customs Union which shall comprise Great Britain and the whole of her dominions, but he wants it now: his motto is "Pan-Europe in our day." So urgent is the need, that Woytinsky has worked out a scheme of federation complete in every detail, and only wanting the button to be pressed in order to prompt its operation. This scheme, we are asked to believe, will not fail to assure to our cantankerous old Continent universal harmony and settled peace.

Woytinsky differs from Coudenhove and many other Pan-Europeans in that he would take in both Great Britain, with all her territories, and Russia, and even more fundamentally in regarding a European Customs Union as only a first step to political federation, and that in turn as a step towards universal free trade. Europe, he holds, is already over-populated, and no longer able to feed itself, so that access to outside markets, for the exchange of its manufactured goods for corn and raw materials, is increasingly imperative. His ideal, therefore, is

the formal pooling of the whole world's economic resources, presumably on the Socialistic principle of each State according to its needs.

It is impossible to criticise unkindly a book like this, since its author means so well and is in such deadly earnest. Yet a little less nagging at " capitalism," " capitalistic economy," and " the ruling classes " might have made its pages more acceptable to readers who, though not Socialists, are deeply concerned about the world's happiness and peace, and the right methods of promoting these great blessings. Woytinsky is conscious that his scheme will encounter opposition, but he refuses to recognise any insuperable difficulties; and the confidence with which he punctuates his text with phrases like " It is quite indubitable " (when it is just the reverse), " There can be no question " (when nearly everything is questionable), and " No special difficulties exist " (when the number of them is legion) is singularly refreshing, though far from convincing. It is true that in one place he concedes that " one must be clear *at the beginning* that the way to European unity will be long and difficult " (this admission, by the way, comes almost on the last of his 186 pages), yet it is equally clear that he himself has no doubts or misgivings. He is the more dogmatical since, having no further use for a " capitalistic " society, he addresses himself ostentatiously to his fellow-Socialists of the active Labour Movement, being convinced that they will best appreciate and most readily accept his ideas, which is likely enough.

Woytinsky's great defect is his doctrinairism. He falls into the common error of social enthusiasts in that he mistakes visions for realities, and supposes that all that is necessary to the realisation of vast projects of social regeneration is to formulate attractive and theoretically perfect plans and invite the world to accept them. But in social reform, as in architecture, the great test of practicability lies not in the designing but the building.

One feature of the book deserves warm commendation. It is the large mass of statistical tables and other data here assembled, for these present a systematised conspectus of the economic life and commercial relations of the entire civilised world, and their collection and arrangement must have entailed an enormous amount of labour.

WILLIAM HARBUTT DAWSON

RURAL SCOTLAND DURING THE WAR

Rural Scotland during the War. By DAVID T. JONES, C.B.E., JOSEPH F. DUNCAN, H. M. CONACHER, and W. R. SCOTT. With an Appendix by J. P. DAY and an Introduction by W. R. SCOTT. (Economic and Social History of the World War, British Series. Oxford University Press. 1926. 12*s*. 6*d*.)

THE difficulties confronting the editor of a work like *Rural Scotland during the War* are almost awe-inspiring. Agriculture is far from being a single, homogeneous industry, and Scotland is far from being, agriculturally speaking, one single country. Professor W. R. Scott is certainly to be congratulated on the success with which he has partly laid on one side the difficulties and partly surmounted them. Contributions are made on aspects of agriculture by Professor Scott, Mr. H. M. Conacher and Mr. J. F. Duncan, on Fisheries by Mr. D. T. Jones, and (in Appendix) on the Jute industry by Professor J. P. Day. They are all eminently qualified to deal with their subjects.

The book will certainly appear incomplete as a work of reference on war conditions, but it contains a good picture of the normal conditions of agriculture. It is possible that the most value will be got from the outlines of rural life as it was in pre-war days and as it now is (remarkably little changed by the upheavals of the period of the war). There is no comprehensive study of Scottish agriculture in the twentieth century, and *Rural Scotland during the War* will provide a useful sketch until some such work is forthcoming. Lack of space undoubtedly accounts for the fact that the work is provokingly only an outline. One feels that a little more detail concerning war-time market conditions and the work of the Agricultural Committees would have done more to meet the purpose of the "Economic and Social History of the World War Series." More discussion, too, of permanent effects of war conditions on the organisation of agriculture would have been useful. In several ways, both Professor Scott and Mr. Conacher hint that there have been no permanent influences worthy of note. Surely this fact in itself, if true, is worth some discussion. An industry which it was always thought only lacked capital and stimulus to make it

advance by leaps and bounds ought to have got that new life from war conditions. Many economic problems of agriculture would have raised themselves in the course of discussion on this point.

The second chapter of the Introduction (after the first few paragraphs) will be read as a unique and delightful sidelight on war. Professor Scott refers chiefly to that very large part of Scotland beyond the Caledonian Canal, unknown even to Lowland Scots except as a sight-seeing and sporting territory. With a few strokes of the essayist's rather than the economist's pen, he gives us a glimpse of Highland life. "One remembers very vividly," he says, "the picture of local conditions presented by a fine old Highlander who lived at Coiagh in Ross-shire. . . . This old man was one of those who thought in Gaelic and who expressed himself in English in the sonorous language of the Authorised Version of the Bible. One realised the isolation of the people when he spoke of the small village of Ullapool as a 'great city,' and it had marked the extent of his wanderings to what town-dwellers would be inclined to call civilisation—to him, in his picturesque imagery, it was as the 'land of Goshen.' He described the war as the time 'when the mantle of darkness had descended on the land,' and it turned out that this was not mere poetic simile but a literal description of what had happened in his township, since all through the previous winter the people had had no artificial light owing to there having been no calls by steamers to land oil" (pp. 18, 19). Or again: "In the early winter of 1914, reservists were joining one of the Highland regiments. The men trickled in at most of the stations in Caithness, and they became more numerous as the train entered Sutherlandshire. As the short winter day closed in, snow began to fall; and as the train wound through the valleys, all the houses were lit up, and the people stood at their doors waving torches and chanting a high-pitched battle song. Except for the railway, nothing was changed. It was thus all through the ages that the clans had mustered, and it was thus that the women, the grandfathers, and the children had sent their men to war." There are many glimpses of the silent, remote suffering of the Highlands which lends great contrast to the feverish excitement of the cities during these years.

In the contribution on Scottish Land Settlement, the reader has to deal with Dr. Scott, economist again, minutely analysing the problem of the crofting areas and small-holding administration, weighing every pro and con, never ignoring the influence

of emotion and sentiment, no matter how blindly these may defy economic reasoning. Highland land settlement is no mere academic problem, any more than the crofter's "land-hunger" is a mere literary phrase. The situation demanded attention even before 1884, but on that date a Commission reported on the Highlands and Islands. The scheduled congested counties have been under special administration ever since, first by Commissioners until 1897; then by the congested Districts Board until 1911, when the Scottish Board of Agriculture and the Land Court (both constituted by the Land Settlement Act of 1911) took over administration between them. The Board and the Land Court, it should be noted, covered in their administration, not the congested counties alone, but the whole of Scotland. The Board has not been able to meet, even half-way, the demand for holdings. "By the end of the first nine months of its existence, namely, by December 31, 1912, the Board had received 5,352 applications for enlargements of existing holdings and for new holdings." The following table, made up from Professor Scott's figures, shows the situation in the briefest form.

TABLE I

Number of Applications for New or Enlarged Holdings

Year.	Highland Counties.	Other Counties.	Total.
1912	4,692	660	5,352
1921	Civilian 4,253 } Ex-service 3,714 } 7,967	2,392 } 2,400 } 4,792	6,645 } 6,114 } 12,759

By the end of 1923, only 2,275 new holdings had been made available, which shows that after eleven years there had not been as many holdings created as would satisfy even the first year's demand. The situation gives rise to much criticism of the Board. Professor Scott discusses their administrative difficulties fully, ex-service complications, dearer materials, and, most difficult of all, dearer capital.

It is Mr. H. M. Conacher's arduous task to cover in less than sixty pages (exclusive of appendices) the whole area of food production in war-time, combining with it a sketch of pre-war agricultural organisation in Scotland and a review of war influences down to 1923. Apart from the multitude of varying conditions and systems of farming in Scotland, which make a general outline difficult, it is impossible, owing to the very many respects

in which Scotland differs from England administratively, to leave much to be inferred from Sir Thomas Middleton's *Food Production in War*. Mr. Conacher points out that Scotland was less radically upset by war needs than was England. The reasons for this are interesting. When more land was required to be brought under the plough, the standard set was a ratio of arable cultivation in 1888. Scotland had declined in arable cultivation only 10 per cent. from 1888, whereas England had declined 25 per cent. Scotland did not grow any more cereals or roots during this period, but, instead of laying down grass to permanent pasture, the farmers of Scotland kept more land under temporary or rotation grass. This proved a more flexible method, because there is much less loss involved in breaking up several acres of rotation grass a year or two years before it is exhausted than there is in breaking up a well-sown field of permanent pasture. The advantage of the more flexible system was gained by the Scottish farmers during the war and after. A second reason lay in the fact that Scottish fat stock farmers deal, as a rule, in the best English market. That market is to a very large extent independent of foreign competition, and therefore that trade was only indirectly influenced by the virtual elimination of foreign competition during the war. The dairy herds of the west and south-west, being mostly Ayrshires, were never in any great danger of being sacrificed to the soaring meat market, because, as a breed, they fatten very poorly. A further fact in Scotland's favour lay in the handling of the labour shortage. Scotland had been experiencing a considerable shortage even before the war. Wages were always higher, too, than in England. The farmers, therefore, had learned, by experience, to make the very best use of scarce and comparatively dear labour.

Whether or not the farmers of Scotland, for these among other reasons, were less disorganised by the war, Mr. Conacher does not seem to think that many permanent changes in the organisation of agriculture have resulted from the war, that he agrees to some extent with Professor Scott's implication that " war economy of all kinds is not permanent," is clear from the statement that " one may be well disposed to doubt whether the war has made any great difference to the future of Scottish agriculture."

There is no indication of permanent adjustments in the production or sale of meat or wool, or in the production of milk. With regard to the sale of milk, while nothing has resulted from the war like the great expansion of the United Dairies in the

London area, yet there has been some movement towards co-ordination, in the way of larger wholesale organisations, some of them farmers' co-operatives and some of them branches of Industrial Co-operative Societies. The latter have attained so much importance in the Glasgow and West of Scotland area in recent years that the reviewer has heard it suggested that they control two-thirds of the milk trade. The chief effects of this movement on the dairy farmers are the collective bargaining to fix the periodic milk prices, and the more suitable collection of milk from the farms. The hours of labour on the dairy farms have been changed for the better on the latter account.

One striking statement by Mr. Conacher provokes thought. "The likelihood of new departures and experiments being made in the near future is lessened by the fact that for some time to come it will be difficult for new men to come into farming. The high prices of stock and equipment have given the men in possession a great pull--and in Scotland the farmer has always had to be a man with considerable capital. This enthronement of the existing farmer—who is often a pluralist farmer—on the land will only be made firmer by the purchase of holdings by the tenant occupiers such as has become common in the last few years." There will most certainly be a difference of opinion on the point whether this is a menace or not. Men with capital and organising ability will not be debarred from entering the industry, and if they lack the necessary knowledge, that can be hired. Clissold may yet turn to agriculture. The situation, however, closes the industry to two classes who might bring new virility to it, namely, the capable farm servant and the scientifically trained youth with practical knowledge, such as our agricultural colleges are turning out and can find no use for.

Mr. J. F. Duncan's contribution to the volume is interesting chiefly for, first, the brief but illuminating sketch of farm servants' conditions in normal times, and, second, for the way in which his story emphasises the difference of outlook between the Scottish farm servant and the English labourer. The Scottish farm workers, as both Mr. Conacher and Mr. Duncan emphasise, are skilled workmen, whose wages are not normally much out of alignment with town worker's wages; who take a pride in their work, and who can usually be given a large amount of responsibility. They are divided, too, into very specialised groups. "Not infrequently," Mr. Duncan says, "they are sensitive about their rights and distinctions. A Lothian ploughman would feel insulted if asked to pull turnips; any ploughman would refuse to allow another ploughman to work his pair of

horses; most ploughmen would refuse to do any byre work; most cattlemen would refuse to allow ploughmen to handle their cattle, and so on."

The Scottish Farm Servants' Union in 1917 fought against the inclusion of Scotland in the clauses of the Corn Production Act of that year. They estimated that voluntary agreements by collective bargaining suited Scottish conditions infinitely better than did the English proposal for a compulsory minimum wage and compulsory Wages Boards. A more assertive and self-reliant attitude was displayed by the Scottish farm workers which compared very favourably with the somewhat "glad-to-take-anything" approach of the English labourer in most counties. One is inclined to assert confidently that this was not merely a war-time distinction. It was the result of different conditions for more than half a century.

It is interesting to note an instance of the adoption of a sliding-scale principle of wage fixing by voluntary agreement. This is surely unique in agriculture. The agreement was come to in the Lothians in 1920 between the National Farmers' Union of Scotland and the Scottish Farm Servants' Union, under which an increase in wages was to be granted in the middle of the term, if the increase in the cost of living justified an alteration. Under the agreement, wages were actually increased by 3*s*. per week at the November term, 1920. In the following year a similar agreement was entered into, and in November 1921, as the cost of living had fallen, a reduction of wages took place.

The organised activity of the Scottish farm servants before and since the war was not entirely devoted to questions of wages. Hours of working (including the demand for holidays), housing and social conditions had places of, at least, equal importance on their programme. A National Agreement was reached for an average 54-hour week and 21 whole or 42 half-holidays per year (exclusive of New Year's Day and the Hiring Fairs). The agreement was never applied nationally, but it served as a basis in many local agreements, and in several counties even better terms were obtained by the workers. Mr. Duncan claims that, in spite of the reaction in many counties since 1920, "it is generally true to say that farm workers are working at least ten hours a week less on an average than was the case at the outbreak of war."

Housing and lack of social life are the two greatest defects of Scottish rural life. It cannot be said that the war has done a great deal yet for housing. As to social life, the women suffer most from the isolation. The post-war movement of the Women's Rural Institutes has helped to some extent (as both Professor

Scott and Mr. Duncan point out). Professor Scott's claim, however, that membership of these Institutes represents two out of every three of the women employed in agriculture, looks as if it were unfortunately based on a wrong calculation. "Altogether," Mr. Duncan says, "the war years have brought to rural Scotland a welcome increase in associated effort which cannot be without effect in building up the much-needed community and social interest."

It is surprising that, in the planning of this volume, the editors should omit any contribution on what is one of the most notable of war effects, namely, the changed conditions of landowning and the resulting large increase in the number of farmers who now own their own farms, many of them against their will and better judgment.

The decline in the gross incomes of landowners did not begin with the war, but dates back to 1880 at least. The war, however, and post-war conditions have accelerated matters to an extent which few people realise. Attention has several times been called to the situation in England. Conditions are very similar in Scotland. Generally speaking agricultural rents had fallen considerably between 1880 and 1913. Expenses tended to increase steadily from 1900 onwards. Repairs cost more and taxation, local and national, increased.

During the war rents could not be increased at all and repairs were suspended where possible. With the return of peace, rents still remained fixed until 1921, while repairs which could not be postponed indefinitely continued to increase in cost up to 1920. Taxation took a tremendous jump. One estate, whose records the reviewer recently examined, provided the following interesting abstract.

TABLE II

Income from Rents; Public Burdens; and Amount spent on Repairs on a Small Estate in Scotland

	1870.	1880.	1890.	1900.	1910.	1915.	1919.	1922.
	£	£	£	£	£	£	£	£
Rental . . .	1902	1764	1777	1739	1650	1594	1594	1930
Public Burdens (a) .	247	236	238	240	388	513	475	1086
Repairs and Improvements (b) .	334	222	358	199	106	235	87	123

(a) Including Rates (parish and county), Income Tax, Land Tax and Church Stipend.

(b) An average of previous three years' expenditure. This, of course, shows, not the increase in the *cost* of repairs, but the amount which the owner was willing to spend.

One need not be an apologist for landowners to realise that this presents a serious agricultural problem, for the permanent equipment (buildings, etc.) of farms is bound to suffer. Another aspect arises from the desire of many landowners to get rid of their estates by selling the farms one by one to the tenants who are prepared to purchase. Mr. Conacher refers to the outcome of this movement. The problem, it is true, is not created by the war, but it has been aggravated by war inflation and war taxation. It would have, perhaps, rendered *Rural Scotland during the War* more complete if some discussion had been given to it.

A review of this volume would be inadequate without mention of the two other contributors. Neither of these deals with agriculture, but the article on "Scottish Fisheries during the War" is linked with agriculture in that it deals with the production of food and also that it affects rural life in the Highlands. Mr. D. T. Jones's article deals more specifically with the war period than do the other articles, and his story gives an insight into the great unsung hardships and dangers of the fisher folk in war-time. As in the other contributions, the general conditions are usefully sketched.

Professor J. P. Day adds an Appendix on the Jute industry. The speculative risks of this industry (localised as regards Great Britain, almost entirely in Dundee) can only be partially realised from the prices and figures quoted by Professor Day.

JOHN P. MAXTON

Agricultural Economics Research Institute, Oxford.

REVIEWS

Banking. By WALTER LEAF. (London: Williams & Norgate, Ltd. The Home University Library. Pp. viii + 255.)

THE union in Mr. Walter Leaf of eminent accomplishment as a scholar and important practical experience as a banker inevitably arouses a high expectation in respect of a book by him on banking. Such admirable qualifications could hardly fail either to produce an original and outstanding contribution, or, if the author aimed at less, to endow mediocre work with the charm of effortless felicity. The second of these virtues belongs to the work under review.

In the greater part of this book Mr. Leaf is engaged in describing detailed matters of fact. If it is the duty of the critic to give most of his attention to the provocative and controversial passages, it is equally his duty to assure readers that these passages comprise only a small part of the whole. There is much clear and interesting description of particulars, the rate at which information is imparted is neither too great nor too small, the style is alive and holds attention. These are uncommon merits, it must be confessed.

Mr. Leaf deals chiefly with English banking. It would have been pedantic had he conceived it his duty to devote greater space to aspects of banking with which he is less thoroughly familiar. There is, however, a considerable passage on the Federal Reserve system and a short note on the functions of the Reichsbank under the Dawes scheme. Mr. Leaf gives a good summary of the needs which brought the Federal Reserve system into existence, but he does not say much of the more recent aims and ideas of those who have controlled it. In his bibliography he refers to Professor Kemmerer's book, which is really an account of what the new banking system was intended to be, and makes no mention of those later works which deal with what it has, in fact, become. It is impossible not to connect this neglect of recent developments with Mr. Leaf's utter lack of sympathy for the ideas which have inspired them. Mr. Leaf is of an older school of thought. He makes one small mistake in his account of the system. He says (p. 69) that "the full working of the Federal Reserve Act depends, it will be seen,

largely upon the amount of good commercial paper bearing two names which member banks can discount with their Reserve Bank in order that it may be put into the Treasury as a basis for the issue of Federal Reserve notes." It is not the case that member banks present for discount chiefly two-name paper. On December 31, 1925, the Federal Reserve banks held $177 million of single-name paper which they had discounted for members and only $3 million of two-name paper so discounted. These figures are typical. If Mr. Leaf implies that one-name paper is ineligible as a basis for notes, that also is incorrect. It is quite true that the Federal Reserve takes a special interest in the creation of two-name paper. But it gives its support not by discounting it for its members, but by being willing to buy in the open market any two-name paper that is offered, even at times when its policy is to contract the volume of its general open-market holdings.

In his note on the new constitution of the Reichsbank, Mr. Leaf observes that the principle of a fixed minimum proportion of gold backing for notes has been preferred to that of a fixed maximum fiduciary issue. He infers that when our currency notes are taken over by the Bank, the same principle will probably be adopted here. He may be right in this. But he is surely wrong in recommending the fixed proportion system on the ground that it has greater elasticity in a time of pressure and panic (p. 57). Walter Bagehot, Mr. Hawtrey, and many other authorities have held, it seems reasonably, that the fixed proportion system is less elastic in a time of crisis for two reasons: first, because it immobilises a part of the reserve, and secondly, because when there is a drain of gold the bottom limit is approached more quickly, three times more quickly if the legal proportion is $\frac{1}{3}$, than it is approached under the fixed issue system. It is in times of expansion that the fixed issue system is less elastic.

Mr. Leaf is concerned to defend the joint stock banks. His line of defence is not that they have important functions and have performed those functions well, but rather that their functions and powers are much less extensive than is popularly supposed. It is true that they have tasks of responsibility and risk. "In giving custody to parcels and boxes, sealed and locked, with contents unknown, the banker is not without anxiety. The risk he runs may be illustrated . . ." etc. It is not exaggerating to say that in the view of Mr. Leaf the whole function of the banks is in principle the same as giving safe custody to parcels and boxes. The careful preservation of depositors' money

is everything, the loan policy nothing. The joint stock banks have and can have no influence on the general credit situation.

On first sight we might be disposed to agree with this contention. If Mr. Leaf merely meant that the credit situation is in the main controlled by the central bank, and that the limits within which the joint stock banks can exercise initiative are comparatively narrow, few would disagree. Unfortunately Mr. Leaf means something more. His contention is that a bank as such has no power to expand or contract the volume of credit; and by a bank he means not only an ordinary deposit bank, but also a central bank. The creation of credit can be effected only by the depositing public or the note-issuing authority. Many passages compel us to hold that this is his view. For instance, on p. 175 he claims it as his "fundamental theme that alike the creation and restriction of credit generally are in the hands of the Government, in other words, of the Treasury and the Bank of England *acting as a Bank of Issue.*" This is surely saying that the banking department of the Bank can by itself have no influence on the state of credit. Such a view takes us back to the days before John Stuart Mill published his *Principles of Political Economy*, to the days of the "Currency School" and Lord Overstone's *Tracts*. Mr. Leaf is not contending, as he very well might, that the central bank cannot in the long run maintain an expansion of credit unless it can also expand the currency, but that by itself it cannot even expand credit for a short time or at all. The imposing array of his adversaries, Tooke and J. S. Mill, Bagehot and Marshall, Knapp and Cassel, the authors of the Federal Reserve reports, and the vast mass of publicists at home and abroad in recent years, should have put Mr. Leaf on his mettle as a controversialist. They have not done so. He may have thought that a volume in the Home University Library is an unsuitable place for polemics. By the same principle, in fairness to the many of his readers who will first introduce themselves to the subject through him, he ought to have warned them that his views have been rejected by most authorities for more than fifty years and are not yet re-instated.

He supports his view chiefly by dogmatic statement, but also by a piece of statistical evidence, which is called Table A (p. 103), and is given a prominence which seems to challenge examination. He argues from this that loans do not create deposits, since in this period a marked increase of "loans and advances" is accompanied by a marked decline of deposits! As a matter of form we may indicate two objections to this line of reasoning. (1) Mr.

Leaf makes no comment on the discount figures. It is probably the case that the decline recorded was entirely represented by a seasonal decline in Treasury bill holdings due to tax receipts. But Mr. Leaf must look below the surface. When Government takings exceed disbursements the banks must accommodate trade directly by increasing advances. When Government disbursements exceed takings the banks accommodate trade indirectly by discounting Treasury bills, and thus enabling the Government to spend ahead and leave more circulating capital in the hands of the public. Advances and discounts taken together give a fairer picture of the ultimate accommodation

TABLE " A "

Aggregate average weekly figures of the " Big Five " for the first six months of 1925

(In thousands of £)

	Current and Deposit Accounts.	Loans and Advances.	Discounts.	Investments.
January . .	1,514,613	745,859	235,289	266,501
February . .	1,502,293	748,639	225,172	258,071
March . . .	1,470,692	765,443	195,239	254,316
April . . .	1,472,197	771,461	184,024	249,646
May . . .	1,466,779	773,257	192,884	246,680
June . . .	1,489,848	775,384	197,929	240,422

which the banks are making to trade than advances taken alone. In Table " A " advances and discounts together declined slightly; in those circumstances no opponent of Mr. Leaf's would expect a rise of deposits. (2) Mr. Leaf maintains that " all the banks, in order to meet the additional call upon their resources, resorted not to any 'creation of credit,' *which was out of their power*, but to their investments at long date, that is, their Government stocks and bonds, which were sold to provide the money for which borrowers were asking." This is assuming what it was required to prove, namely, that the banks were forced to cut down their investments in order to accommodate trade. An objector would hold that the banks need not have sold out their investments, and that, if they had not done so, deposits would not have declined. Nor is it at all plausible to hold that the fact that the banks did sell investments indicates that they were forced to. In the last six years the banks have maintained a more or less consistent policy of cutting down investments, in

order to work back to the pre-war proportion of long-term assets, which they regard as technically sounder. Mr. Leaf thus misinterprets his principal statistical evidence, and he has to assume the conclusion which his figures are supposed to yield in order to show that they yield it. Was it for this that Tooke and his successors battled like men to elaborate a correct theory of credit?

Such palpable confusion requires some explanation; the explanation in this case can be apprehended without difficulty. Mr. Leaf views the problem solely from the standpoint of the individual banker. He thus gives new life to the ancient platitude of economic text-books, that a practical business man is usually too immersed in particulars to obtain a true view of the economic world as a whole. The two following facts are clear. (1) When an individual bank (other than the central bank), A, makes a loan it does not and ought not to conceive that this will involve an addition to its own deposits. On the contrary, it will probably result in an addition to the deposits of another bank. Therefore an individual banker is only in the position to make a loan if he has cash assets, placed with him by the public, to finance it. (2) The banks other than A whose deposits rise as a result of A's loan are not aware of the reason of the rise. They cannot distinguish a rise in deposits which is due to the public being able to dispense with some of its cash from a rise in deposits due to the loan of another banker. Thus neither the individual bank which makes the loan nor the individual bank which receives the "created" deposit sees the connection between them. And therefore the individual banker, unless he is also an economist, is likely to be sceptical of the connection. But if the only way to create a deposit were to take cash to the bank, how would it be possible for the aggregate of deposits to be far in excess of all the cash in the country? Mr. Leaf may not be clear what is really meant by the phrase "loans create deposits." It does not mean that a single bank can be sure of increasing deposits with itself by making extra loans. Nor does it mean that all bank loans necessarily increase the aggregate of bank deposits by an equal value. It does mean that a part of the outstanding deposits could not exist had the banks made no loans, and that an addition to aggregate deposits is often the direct result of an increase in the aggregate of loans. Whether a particular extra loan does cause there to be an increase of deposits it is often impossible to say. That the greater part of our outstanding deposits could not exist if bank loans had not

been made is obvious. A loan is said to create a deposit when the aggregate of deposits becomes greater than it would have been had the loan not been made. This usage may not be strictly accurate, but it appears to be sufficiently so for popular speech.

Mr. Leaf informs us that the banks need for till money about one-half of the cash that they commonly hold, and that the sacrifice of 4 per cent. on dividends which the residual cash holding involves is very noble or very stupid, he does not make it quite clear which he means (p. 132). This implies that the banks have no responsibility at all for easing the situation in times of crisis. He callously observes that the banks can without difficulty replenish their tills by calling in brokers' loans. Thus they throw the whole burden of the crisis on to the Bank of England. He refers to the events of 1914. "In that memorable crisis" the joint stock banks defended themselves not by using their cash balances, but by drawing in the Money at Call and Short Notice. Some might hold that the joint stock banks acted rather selfishly on that occasion.

Mr. Leaf is perhaps more provocative because he applies severe compression to his provocative utterances. By far the greater part of his book is quite innocuous, and, when innocuous, instructive and informing.

R. F. HARROD

Christ Church,
Oxford.

The First Year of the Gold Standard. By T. E. GREGORY (Ernest Benn. London. 1926. Pp. 141. 3*s.* 6*d.*).

"WE have arrived," says Professor Gregory, "at that confusing and depressing period when doubt as to the wisdom of the course taken, the disappointment of exaggerated hopes, weariness of the whole controversy, the absence of clear-cut issues, the dying down of the fighting mood, and the reaction from victory gained all combine to produce mental staleness and emotional indifference." This may be true, but Professor Gregory managed to hold together a large audience for over an hour when he discussed his subject before Section F of the British Association at Oxford last August.

That subject is really not very well described as "the first year of the gold standard." A more informing title would have been "Some Readoptions of the Gold Standard, actual and prospective." The selection (perhaps a little arbitrary) is, for actual

readoptions, Great Britain, Sweden, Holland, Germany, and Poland, though Poland subsequently became a backslider: for prospective readoptions, Norway, Denmark, France, Belgium, and Italy (the book having been written in the summer of 1926).

The detailed examination of the cases is preceded by sixteen pages devoted to "The Theory of Stabilisation." Here I think Professor Gregory's nomenclature and arrangement are not altogether satisfactory. After some experience of paper currencies "managed" on no intelligible principle, the people of a country come to regard gold as so stable in value that they give the name of "stabilisation" to the process of tying up the value of their currency to that of gold at some ratio near that of the moment. The term ousts "devaluation," because the people have suffered so long from the vagaries of mismanagement that they demand greater steadiness at any price; the price of the moment is the easiest to adopt. But a return to the old pre-war parity with gold is not usually spoken of as "stabilisation," because countries in which such a return is reasonably possible have been subjected to less violent fluctuations, so that the idea of restoring the old value takes the place of, or at any rate overshadows, that of making it more steady.

Professor Gregory seems to recognise this when he speaks of "the question of the return to the pre-war parity as against stabilisation on a basis near to, or at, the actual rate which the forces at work on the exchange market . . . had established." But the question which his theory of stabilisation formally attacks is: What are the effects of choosing for the stabilisation rate the foreign-exchange rate of the moment or one somewhat higher or lower which is supposed to be better suited to the internal general price-level?

It does not seem as if the theory of this subject can be applied conveniently to cases where return to the old parity is being aimed at. Where mere stabilisation is demanded, the reputation and prestige of the currency are scarcely concerned at all. Something like the saying "as well be hung for a sheep as a lamb" applies to currencies. It will make no appreciable difference to the credit of the franc of the future whether it is stabilised at 19 or at 20 per cent. of its pre-war parity: would the present German mark currency be appreciably more trusted and the German Government be appreciably better able to raise mark loans, if the stabilisation rate had been a milliard, instead of a billion, to one? But when the choice is between 95 and 100 per cent. of the old parity, the situation is quite different. The first lapse from

virtue here, as elsewhere, counts for much more than subsequent ones, so that far more temporary inconvenience may properly be incurred in adopting 100 per cent. as against 95 than it would be reasonable to incur for the sake of adopting 20 per cent. instead of 19, or even a milliardth instead of a billionth.

This being so, I cannot think Professor Gregory is justified in attempting, as he does at least in form, to bring Great Britain, the Scandinavian countries and Holland under the same " stabilisation " theory as the countries which have submitted, or are about to submit, to devaluations. In the cases where restoration has been definitely decided on there is no choice about the ratio : it is the old ratio, and the actual ratio cannot possibly be appreciably above it, except in the very unlikely event of a country having actually carried out the Swedish suggestion of refusing gold at that rate. Consequently the " practical alternatives " are not those mentioned on pp. 11 and 12, " (1) the choice of the current rate of exchange," and "(2) the choice of an alternative rate" above or below it. In the case of Great Britain the cow of deflation had been swallowed in 1920–22, and the historian of " fifty years on " will not waste much time over the disappearance of the tail in 1925.

In his detailed treatment of the selected case of restoration and stabilisation, Professor Gregory is prolific in information and dispassionate in judgment. To pack so much information into a book of this size is a wonderful feat, even with the assistance of a grant from the Laura Spelman Rockefeller Foundation to which Prof. Gregory expresses his thanks. We may perhaps be permitted a hopeful doubt about the statement that " the conclusion that money wages are still too high is unescapable." It is admitted that an increase of productivity might adjust matters, and " the index of production prepared by the London and Cambridge Economic Service " is not capable of showing that such a change is impossible in a future near enough to make a fall of wages unnecessary. Recent comparisons of British and American conditions rather suggest the possibility, and some changes in outlook rather suggest the probability, of the British level of productivity, and consequently of wages, being considerably raised before long.

EDWIN CANNAN

Restoring Currency Standards. By E. L. HARGREAVES. (P. S. King. Pp. 106. 6*s*.)

HISTORIANS and economists who describe epochs of currency collapse have always been inclined to make our hair stand on end by dwelling on the frantic process of depreciation, but to neglect or to pass over very summarily the subsequent transition to normal conditions. The battle itself supplies the excitement and the picturesque incidents; the rescue of the wounded is a more prosaic business, a subject for medical experts.

Dr. Hargreaves has provided a very useful and lucid summary of one class of measures adopted in these transitional periods. His book deals with the equitable adjustment of debts arising from contracts which have been concluded in a depreciated currency but have to be discharged in a restored currency. Three cases are described: the continental currency of the American War of Independence, the French assignats, and the Austro-Hungarian paper money of the Napoleonic period. A short reference to the recent German valorisation is added.

When a currency has depreciated too far to be restored by deflation to its former value, it can only be stabilised at the cost of some measure of devaluation. Three methods of devaluation may be distinguished: (1) the existing currency unit may be stabilised at a new metallic value or purchasing power, without any other change; or (2) a new currency unit may be introduced equal to a prescribed ratio or multiple of the old, all outstanding obligations being translated into the new unit without any change of substance, but only of denomination; or (3) the old undepreciated currency unit may be reintroduced, and the depreciated currency either demonetised or made to pass at a fraction of its nominal value.

The two former methods differ only formally from one another; they agree in leaving the full loss of depreciation on the shoulders of the creditors. The third method, on the contrary, would, if applied without modification, put the whole burden of the restored currency upon debtors. It would be much too favourable to some creditors, for it would give one who had contracted in depreciated currency much more than he had ever expected to receive. When a currency is restored by deflation, this also occurs, but on a smaller scale, because the depreciation is not so great as to make deflation impossible, and the appreciation of the currency is gradual.

In Dr. Hargreaves' three historical cases the appreciation was

discontinuous. People began to use metallic currency alongside the depreciated paper currency, and a day came when the paper currency was demonetised. Thereupon, unless some express provision had been made to the contrary, a debt expressed in so many dollars or livres or florins would have become payable in silver instead of paper. A debt of 1780 in dollars would have been multiplied forty-fold; one of 1796 in livres several hundred-fold.

The complicated legislation which is lucidly and concisely summarised by Dr. Hargreaves was devised on the three occasions named to prevent such intolerable injustice arising. The principle followed was to calculate the value in silver of each debt at the date at which it was contracted and to make it payable in that amount of silver, a statutory scale of depreciation of the monetary unit at various dates being established for the purpose. The detailed application of this principle was full of difficulties and complexities. But they were not in themselves insurmountable; the real defect was a fundamental one, that it was not possible to reopen debts which had been *paid* during the depreciation. In South Carolina (where the British administration had not recognised the continental currency as legal tender) an attempt was made to reopen debts, but not with very satisfactory results (pp. 7–9).

It is interesting to observe that the circumstances which form Dr. Hargreaves' theme have not recurred in any of the countries in which monetary difficulties have been experienced since the war. In no case has an old metallic unit been revived. The nearest approach to it has been in Germany, but even there the new mark, though it has the same name and gold value, is simply the equivalent of a billion of the old. The valorisation laws in Germany are therefore needed not to relieve debtors from an intolerable burden, but to save certain creditors from a loss which is regarded as socially undesirable.

R. G. HAWTREY

London.

Il Cambio Italiano: Indagine sulle cause delle sue ultime oscillazioni. By JACOPO MAZZEI. (Firenze. 1926, Pp. 122.)

SIGNOR MAZZEI has set out in this small book to explain the causes of the sudden fall from grace of the Italian lira in the middle of 1925, after the prolonged period of relative stability since the beginning of 1922. He is able to show that the chief of all the maladies that are wont to afflict inconvertible currencies,

viz. forced inflation due to budgetary disequilibrium, did not apply in this case. In his opinion, and he is able to bring cogent evidence in favour of his arguments, the main factor was the continuance of commercial inflation due to the expansion of Italian industries and foreign trade, and fostered by a low discount rate. Secondary factors were a seasonal pressure on the exchanges arising from a poor harvest and the consequent need to import large quantities of grain; a sudden Stock Exchange crisis leading to the intervention of the Government with financial support; and a growing lack of confidence in Italy in the future of the lira, which was accentuated by the negotiations then proceeding with England and the United States for the settlement of Italy's international debts.

His chief object was to show that, at the time of writing (July 1925), the underlying forces which govern the foreign value of a country's currency were favourable to the lira: a Government policy of deflation had been proclaimed; the discount rate had been raised on June 18, 1925 to 7 per cent.; the budgetary situation continued to be excellent; a good harvest was in prospect; the loss of confidence was a temporary phenomenon which would quickly react to the realities of the economic situation. Basing himself on these arguments he bodly entered on the perilous paths of economic prophecy and foretold the "victory" of the lira.

For several months after Signor Mazzei wrote, events appeared to support his forecast. With the aid of strong Government support the lira was raised from 137 to the pound to 120, and was kept at that level till the end of April 1926. The exchange was for the time "pegged" by the Government in a manner analogous to the operations of a central bank under the gold exchange standard, but with the important difference that the Government refrained from locking up the lira which it bought in exchange for the foreign currencies sold for the purposes of commerce. The result was that internal circulation was not reduced, the banks expanded their discounts, and imports increased. In May 1926 the Government found itself unable any longer to maintain the lira, which fell rapidly until it reached 150 at the end of July. Signor Mussolini was then roused to fresh action; a new deflationist campaign was initiated, and by the end of 1926 the lira had been brought back to 108, this time with the aid of a drastic rationing of commercial credits, a legal maximum note issue and other financial measures.

The conclusions to be drawn from the recent history of the Italian exchange appear to be, first, that even a balanced budget

accompanied by a rigid exchange control may be insufficient to maintain the external value of a currency unless the whole credit policy of the country is co-ordinated with a view to maintaining that value; secondly, that when industry and commerce are prosperous a high bank rate may not be sufficient alone to check excessive demands for credit and may have to be supplemented by other devices, such as the rationing of credit; thirdly, that the absence of a declared policy of stabilisation at some definite rate gives rise to uncertainty, lack of confidence, speculation, and violent fluctuations in exchanges. It is not merely that the business community do not know where they stand, but the banks themselves cannot be expected to conform to a policy unless they know what that policy is. In the meantime Signor Mussolini continues to make valiant speeches, seasoned with military metaphors, to the effect that the "battle of the lira" is not yet won. It is even possible that he may continue with his process of deflation until he is brought to a halt by the disappearance of the hardly earned budgetary surplus of the Italian State.

C. W. GUILLEBAUD

St. John's College,
Cambridge.

Studies in Public Finance. By EDWIN R. A. SELIGMAN. (New York: The Macmillan Co. 1925. Pp. ix + 302. 17*s*. net.)

MR. HIGGS, reviewing in a recent number of this JOURNAL[1] the "companion volume" to this book, bearing the title of *Essays in Economics*, paid a graceful tribute to the high standing of the author among the veteran economists of our day. That deserved eulogy met, we are sure, a world-wide response. But the large and accurate erudition, the extensive knowledge of past and comprehensive acquaintance with present economic literature, fortified as it has been by the acquisition and the use of the wonderful library to which Mr. Higgs alluded, the keen, profound insight into and the sane balanced judgment upon the acts as well as the opinions of men of great affairs of State and of administrators of large business enterprise and of plain ordinary folk, have, we may appositely call to mind, been shown especially in the branch of inquiry with which the studies before us deal. They are, too, we are informed by Professor Seligman, "preliminary" to the early publication of three volumes on the *Principles of Fiscal Science*, to which we should perhaps look

[1] For December, 1926.

forward as the "comprehensive book" that "ought to come at the close of a scholar's career," were it not that the multifarious indefatigable vitality of previous years, continuing so evidently now, forbids the announcement, or at least would stay the acceptance, of "finis." It is significant of that alert achievement, and of the wide, deep admiration it has won, that the *Essays in Taxation*, first collected in 1895, should have been "enlarged to almost double" the "original size," and that new editions have been called for "every two or three years." And the full tale of Professor Seligman's masterly handling of finance includes the "independent books," which have become authorities, on *Progressive Taxation*, on the *Shifting and Incidence of Taxation* and on the *Income Tax*—the last indeed of the three filling completely a gap, not otherwise adequately supplied, in the account of our own fiscal history and arrangements—besides contributions to official documents.

Economists in this country are sometimes tempted to envy the position of their Transatlantic colleagues. It is not merely that in our Universities the number of the teaching staff is still so meagre by comparison, and that the recognition of Economics as a fit subject of independent study has hitherto been, by contrast, generally grudging rather than handsome, but the weight attached to expert knowledge therein is also more considerable and evident in the United States, where it is the rule, not the exception, for influential bodies and persons to invoke and heed counsel proceeding from this source. In this volume, accordingly, studies are embraced which were originally submitted to Congress, to the Senate, and to the Supreme Court; and, we are informed, that last famous, respected, powerful authority accepted in its decision the conclusions reached in the Professor's reply to the question whether "Stock dividends" were or were not "income." We could wish that the American public as a whole could also be expected to follow soon his sensible, candid advice on the treatment of the Allied Debts. But at any rate we rejoice to read reprinted here his conclusive rejoinder to Mr. Hoover's arguments on that vexatious but crucial topic. It is a characteristic example of his merit as a writer on finance, for it is as clear and comprehensive as it is convincing and profound.

All the pieces collected in this welcome volume would repay close reiterated study. We must now be content to point out how they exemplify in turn the high quality of the essayist. The opening chapter, for instance, on Comparative Tax Burdens in the Twentieth Century, is a fine model of mingled caution and

dexterity in obtaining from the evidence of figures as much as and not more than they should properly convey. The third and fourth papers on Income Tax and the Price Level and on Taxation and Prices generally, and the ninth on the Taxation of Non-residents in the New York Income Tax, demonstrate a rare capacity for getting deeper beneath the surface than other writers on the subject. They also show the Professor's nice balancing of opposite considerations, his damning exposure of older cruder theories, and his judicious avoidance of extremes in novel ideas and fresh statements. In the sixth study on the Sales Tax his wide acquaintance with past history and present facts is conspicuous, as it is in the last chapter, dealing with the French Colonial Fiscal System, while his discriminating acumen and his practical statesmanship find opportunity for their exercise in the discussions in the seventh chapter of the problem of Tax-exempt Securities, in the tenth of Fiscal Reconstruction, and in the eleventh of the Reform of Municipal Taxation, in the United States. These pieces may also suggest to Englishmen the consolatory thought that some other countries are behind them rather than before them in the adoption of good finance.

We would venture in conclusion to draw Professor Seligman's notice to a few points. We should question his pronouncement on p. 9, that the prohibitive cost, as it proved, of the expense of valuation in connection with the abortive duties on land values in this country should be ascribed to the " most obstinate resistance," which they certainly encountered, and we suggest that the expression " annual " expenses may mislead. We agree that the yields were insignificant in comparison, but we should trace the break-down or fiasco to the attempt which, equitable in design, and required to avoid injustice, or discouragement of enterprise, proved impracticable in actual working—the endeavour, namely, to translate into an Act of Parliament, to be interpreted by the Courts, the refined impalpable conception of abstract economic theory. For the " site-value " was to be equivalent to " economic rent "; and the trouble and tangle began with the initial valuation. Such a topsy-turvy issue as a ruling in favour of taxing the difference between minus quantities disgusted as it perplexed plain citizens, and the Lloyd George budget synchronised with, if it did not alone cause, the arrest of building operations with its calamitous sequel of a lack of house accommodation now only just being overtaken. We think, too, that some amendment is desirable in the assertion on p. 113, that in " both England and the United States the rental

value of a house is held not to be income," for we do not see how, as it stands, it can be reconciled with the undoubted fact that an English owner occupying his own house is compelled to pay income tax on the rental value thereof under Schedule A, just as a tenant is entitled to deduct such tax from the next payment of his rent. We would further suggest that the reference on p. 128 to the description by "someone" of taxes on everything "that a man eats, smells or hears" might be amplified by explicit quotation of Sydney Smith's famous amusing catalogue of English taxes in 1820—in the *Edinburgh Review* in a notice, as Mr. George Russell states, of Seybert's *America*—as the result of the Napoleonic wars. "Jonathan" in the person of our "American cousins" is expressly introduced. And, finally, on p. 214 the footnote "See above" reads curiously when the statement in the text is "will be seen below." These are mostly trifling corrigenda which doubtless escaped the author's careful proof-reading, and, if blemishing spots they be, they enhance the fair visage of the book as a whole. It is an addition to those classics of finance for which our American Correspondent has earned, and, we are glad to remember, is still to earn, our humble hearty gratitude.

L. L. PRICE

American Foreign Investments. By ROBERT W. DUNN. (London: George Allen & Unwin: 1926. Pp. 421. 21*s*.)

THIS work is not an economic one in the ordinary sense, though it deals with aggregates and economic tendencies or causes. It is more in the nature of an annotated catalogue, breaking up into recognisable sections the ten or twelve billion dollars recently invested abroad by United States citizens. It is a classification of investments which will enable an answer to be given, more or less complete, to the two questions: Where and in what form is American money now invested abroad? and, What difficulties are involved in foreign investment transactions?

The book does not overcome the difficulties inherent in this line of investigation, more especially that of tracing industrial investment. Ownership is often concealed and only becomes public knowledge through an accident. "It is quite possible for an American Bank or Corporation to send large instalments of capital abroad periodically, until it has quietly taken over a British Company without any public notice." Obviously, when

interest on foreign investment becomes large and accrues abroad, it is often still more possible for its silent action to defy observation. Again, investment made by means of Bank loans is baffling even to those who work among banking statistics. No Government census by deliberate questioning has been undertaken, or is likely, and therefore Mr. Dunn's book represents all we are likely to know for some time to come.

The first fifty pages deal with general aspects, *e.g.* a brief sketch of the United States as a debtor nation, when foreign ownership in 1890 reached about 600 to 700 million £ sterling, and America owned only about 100 millions sterling of foreign securities—the great bulk in Canada and Mexico. Then comes an account of how the war turned the investment tide, American securities held abroad being returned in a steady stream; the estimate of their value from 1914 to 1919 was 400 millions sterling as a minimum. The year 1924 established a new record in foreign financing, the public flotations reaching 240 million £, only a quarter of which was for refunding purposes. A full list of these operations is given.

When summarising Government loans to foreign Governments the author naïvely remarks that the figures indicate the influence which America can exert upon any European country with the exception of Scandinavia, Spain and Holland. " The importance of the War Loan obligations when it is desired to bring pressure to bear upon countries whose national interests crossed those of American investors was illustrated in 1924 in the case of Roumania. The Roumanian Government enacted legislation tending to nationalise its oil supplies. This was resented by American oil companies which had invested in Roumania."

The State Department reminded the Roumanian Government that her loan was due to be called. " Similar political pressure is possible at any time through these great national loans." And yet our American friends are still nursing a delusion that they can pursue a progressive policy of foreign investment and at the same time maintain their old policy of aloofness in foreign affairs.

Then follow long lists of loans floated in the American market by foreign authorities and foreign connections of United States banks. One hundred pages are devoted to lists, under large geographic units, showing the holdings in foreign countries; *e.g.* Great Britain is shown as holding in the Argentine nearly 400 millions sterling, France about 85 millions, and the United

States 50 millions. These records will be of use to people engaged in the practical business of foreign investment. They are of only incidental value to economists. An estimate of the total overseas investment at the end of 1924 is 9,090 million dollars, of which 4,040 million is in Latin America and 1900 in Europe.

As a detailed and up-to-date analysis of the most obvious American investments in the various countries of the world, and as a compendium of the technicalities of contracts in such operations, Mr. Dunn's book has great value, but from the point of view of the economist its utility is indirect only.

J. C. STAMP.

Das Deutsche Volkseinkommen. Von DR. ERICH ROGOWSKI. (Berlin: Verlag von Emil Ebering. 1926. Pp. 157.)

We have here a very careful estimate of the National Income (*Volkseinkommen*) of Germany in 1924 compared with that in 1913. Dr. Rogowski, after a brief discussion of the nature of National Capital, of which he holds that no measurement is possible, devotes a considerable space to the various conceptions of National Income. He appears to take as his working definition the value of the aggregate of goods and services exchanged for money, together with similar goods consumed by their producers and the value of houses owned by their occupiers, in Germany in a year; in the statistical evaluation of this definition he is prepared to allow for some arbitrariness of interpretation, for "there is no 'correct' (*richtige*) National Income total, and in order to be able to judge the results of an investigation, it is necessary to know how the conception of income has been interpreted."

The principal data for the estimate are the Prussian Income Tax statistics, which applied to incomes of 900 marks or more, and are estimated to include over 75 per cent. of personal incomes. Rather hazardous estimates are made of the amount of personal income below this level and of other elements of income, but in all such cases maximum and minimum values are given. The result for Prussia in 1913 may be written 30,100 $\pm$ 1,600 million marks. There seems no reason to doubt that so far the margin allowed is sufficient to include the unknown errors of the estimate. The ground is not so safe when with practically no further direct data, but only rough indications of certain elements of expenditure, etc., this estimate is raised 60 per cent. to include the rest of Germany, principally on the consideration that the population of Germany was 61·6 per cent. greater than that of Prussia,

while such indications as there are suggest a lower average income outside Prussia. The relative margin of error is not enlarged and the income of Germany as a whole is given as 47,600 ± 2,500 million marks, after a correction for duplication. This is 8 per cent. higher than Helfferich's estimate for 1914, which the author criticises.

The problem of passing from 1913 to 1924 presents similar difficulties in many European countries; while the main sources of information are the same, there has been a change of territory, a greater element of duplication to eliminate owing to increased non-beneficial taxation, a change in the relative position of the exemption limit for income-tax, and a fall in the value of currency. To meet the first difficulty the estimate is reduced, principally by considerations of population in ceded territories, so as to give 42,300 ± 2,200 million marks in 1913 for Germany as constituted in 1924. As to the second difficulty, our author appears to take the total of individual incomes arising from work and property, excluding small war pensions, and excluding interest on part of the National Debt; but neither his tables nor his analysis are clear in this respect, and the general treatment is not presented in such a way as to make his analysis easy to follow. The change in the position of the exemption limit is met by a very careful re-examination of the probable income below this limit, the results of which are stated with a sufficient margin of error. The 1913 income is raised, after an analysis of the relevance of various price index-numbers, by about 40 per cent., so that for Germany as constituted in 1924 the 1913 income was 56½ milliard marks, the marks being taken at their 1924 value. The corresponding estimate in 1924 (for the same territory and equally in 1924 marks) is 44 milliard marks. The income per head in 1913 was 680 marks of 1913 value, or 950 ± 45 marks of 1924 value; in 1924 it was 710 ± 30 marks. The maximum estimate is that the real income per head in 1924 was 80 per cent. of that in 1913, the minimum that it was 70 per cent.; but the fall is not equally distributed and the average real income of wage-earners and salaried persons was perhaps up to 85 per cent. of the pre-war level. In 1925 there was a definite increase, so that the real income per head of all classes reached 88 ± 5 per cent. of the pre-war level.

The work is very carefully done, but there is such a very large element of estimate from data that appear to be insufficient, and so much depends on correct interpretation and evaluation of factors that can only be appreciated by one well-versed in German

habits and German statistics, that it is impossible to criticise the general accuracy of the results. It seems that the author trusts the price-index numbers too readily, and that à priori it is not possible to estimate relative real income as closely as the margin of 5 per cent. implies. But the conclusion that the real income per head in Germany in 1925 was definitely, but not very far, below that in 1913 appears to be established.

A. L. BOWLEY

Employee Stock Ownership in the United States. By ROBERT F. FOERSTER and ELSE H. DIETEL. (Princeton University: Industrial Relations Section; Princeton University Press. 1926. Pp. 174. $2.00.)

THIS valuable study comes at an opportune time. Of recent years in Britain the question of interesting employees in the prosperity of the business for which they work has attracted increasing attention. But so far British practice has differed sharply from American. In this country it has in the vast majority of cases been considered necessary to make profit-sharing the stepping-stone to stock ownership. Moreover, the Labour Copartnership Association advocates this method, and the recent Report of the Royal Commission on the Coal Industry recommends it. American practice is more realistic and less paternal. There the general aim seems to be to make the workers ordinary stockholders, and to introduce as little variation as possible between the employee stockholder and the "outside" stockholder. Such differentiation as is introduced is designed to take account of the peculiar position of the employee investor; his smaller income is catered for by arranging the payment of the stock by small deductions from wages, his greater sacrifice by granting greater security, and his smaller reserves by making his stock marketable without loss. All the plans are confined to individual businesses, few make any provision for profit-sharing as the means to copartnership, and none suggest the giving of shares to workers merely in virtue of service. In terms of British thought on the subject the typical American plan would be designated as "contributory copartnership."

This book, with its careful analysis of schemes, and its very limited and cautious interpretation of them, is primarily an encyclopædia of present procedure. It is an attempt, and a very successful one, to take a snap-shot of an avalanche. For the movement gathered momentum only in the years after the depression of 1921–22, and still seems to be going forward at an

accelerated pace. The growth of the movement is attributed to the fact that Liberty Bonds, which were bought in large numbers, accustomed the workers to save and invest; to the substantial increase in the workers' earnings due to the decline in mass immigration, and the improved organisation and technical efficiency of industry; the lessons in saving taught by the instalment buying so common in the country; and the improved investment status of " corporate securities."

The authors, with a modesty that disarms, disclaim any pretensions for their volume. The major part of the book consists of an analysis of the plans and their results (pp. 6–69), and a list and summary of plans (pp. 99–174). Only in the intervening thirty pages do the authors embark on any consideration of policy; their sober and judicial treatment of the subject is to be commended to those British observers who seem to return from the States blinded with excess of light. On a conservative estimate the authors calculate that " substantially over 700,000,000 dollars " worth of stock, reckoned at market value on April 15, 1926, is held by employees in the companies for which they work. In some of the 306 plans studied the employees hold the majority of the shares: in the Fuller Brush Company the employees own almost the whole of the stock; in the California Corrugated Culvert Company 40 per cent. of the employees own 95 per cent. of its common stock; in the Murphy Varnish Company 30 per cent. of the employees own 75 per cent. of the stock. In the great majority of the cases the employees' investments have been profitable to them up to the present time.

Employers as a rule declare their plans to be " satisfactory " or " successful," and give as their reasons that thrift has been encouraged, that better relations are promoted between management and employees, and that the workers are enabled to share in the success of the company. Among businesses that have considered the adoption of a plan and have decided against it, the reasons that have weighed with them are that the stock was not of high standing as an investment, that it was closely held, that they were unwilling to assume responsibility for the investment of their employees' savings, or that they did not relish the idea of sharing control with their employees.

The authors' answer to the usual argument against copartnership, that it would concentrate the worker's risks and put his job and his savings at the mercy of the same set of industrial circumstances, is interesting, if not entirely satisfactory. They point out that in many large corporations the modern tendency

to amass reserves is lessening the insecurity of their dividends, that preference shares may be issued if the future is doubtful, that the sense of proprietorship is always most satisfactorily felt where tangible things are in question, and that to some extent the employee knows his company from the inside. "Until the present," we are told on p. 89, "most corporations have created no opportunity to buy other securities than those they are expressly offering, and no other agency, whether of organised labour or of a public kind, has extensively met this need, although various promising beginnings have been made." We should have liked to hear about the part played by the Labour Banks, and of the other promising beginnings referred to.

As a clear, impartial statement of American practice this book is unrivalled. The reviewer's plaint can only be that the authors have allowed themselves too little speculative liberty, and in that little have been so careful to balance each *pro* with its opposing *con* that criticism is forestalled. The nature of the book demands an index, which unfortunately has not been supplied.

JAMES A. BOWIE

School of Technology,
Manchester.

Family Allowances in Practice: an examination of the development of the family wage system and of the Compensation Fund principally in Belgium, France, Germany and Holland. By HUGH H. R. VIBART, M.A., N.Litt. (London: P. S. King & Son, Ltd. 1926. 10*s.* 6*d.*) F.S.S.

Family Income Insurance: a scheme of family endowment by the method of Insurance. By JOSEPH L. COHEN, M.A., with a preface by ELEANOR F. RATHBONE. (London: P. S. King & Son, Ltd. 1926. 1*s.* net.)

THE question of family allowances in industry in this country has hardly as yet been brought into the realm of practical industrial and political consideration. Hence these two books, following closely on the *Disinherited Family* by Miss Rathbone, afford very valuable contributions to the study of the subject, and not the less so because they make the reader aware of the many problems connected with it which still remain to be solved. The first book deals in detail with the method of Family Allowances widely adopted on the Continent, by pools or "Caisses de Compensation," either regional or industrial, and by the direct payment of children's allowances by the State to Civil servants,

and by a very large number of municipalities to their employees as a form of "cost of living" bonus. The second advocates the payment of children's allowances as an extension of the already existing social insurance schemes, regarding the advent of children as another "risk" to be added to that of unemployment, sickness, etc. Mr. Cohen has worked out very useful tables showing approximately what payment might be necessary from the State, employer and employed respectively, under the twelve different schemes of allowances which he outlines. These contain variations from a flat rate benefit of 6*s*. for each child under sixteen, to varied benefits of 5*s*. for the first child, and 3*s*. for each successive child under fifteen. There are many other possible variations which are not mentioned, such as the payment of no allowance at all or at a very low rate to the first child, with an increasing rate for further children—which is a very common practice abroad—and, on the other hand, limiting the allowances to four or five children, in order to meet the criticism that the lowest paid workers will otherwise be tempted to have even larger families than at present.

Mr. Vibart's book may be divided into three parts. The first is an attempt to analyse the basis of the present wage system with a view to showing that the payment of family allowances in addition to wages would not introduce a foreign element, but only a scientific development of the factor of needs already existent in varying degrees in all wage negotiations. The second part gives a full historical description of the schemes in Europe to-day. The third uses the experience of these schemes to meet many of the criticisms that any suggestion of this kind draws upon itself. With regard to the latter part, one is rather bewildered by the many points of difference in the schemes, and Mr. Vibart does not give the reader much help in deciding which of them is to be preferred. These chapters might be more valuable if the material in them was more co-ordinated under definite headings. To take one point alone, where regional schemes have been started, how have they overcome the difficulties that seem so insuperable here, and what reason did those employers whom Mr. Vibart quotes as speaking in favour of them give for doing so? However, this part is of great value in its indirect suggestions as to the pitfalls to be avoided if any scheme is to be acceptable to the workers in England.

It seems certain that the workers abroad have no wish to return to the days when there were no such schemes, although they are anxious to take them out of the control of the employers'

associations. In a majority of cases the payments are made direct to the mother, and this has produced no discontent on the part of the workers; it may even have made the scheme more acceptable to the bachelors. Where they are paid to the workers, special care is taken to separate them from the wages.

At a time when it is becoming increasingly difficult, particularly in the competitive trades, such as coal, engineering, etc., to pay a wage to every male worker sufficient to cover the needs of even the married men with families of two and three dependent children, it seems vital for the future of the race to examine more closely the whole basis of wages. Hence the immense value of Mr. Vibart's third chapter, which, however unorthodox it may appear to some economists, seems to throw an element of reality into the discussion of wages which is sometimes lacking. He maintains that in scarcely any wage settlement is the "needs" factor entirely absent, and that it is the interplay of three elements, the capacity of an industry to pay, the output of the worker and the "needs" of the worker, that ultimately determines wages. This third element is complicated by the varying needs of the individual worker according to whether he has dependents or not.

The amount of influence that this can exert depends very largely on the strength of the workers' organisation, unless a Trade Board exists, when it no doubt plays a rather more important part. Arguing from the practice of Trade Boards, he urges that the introduction of schemes of children's allowances in industry would only apply this factor of needs scientifically and justly, as between men and women, young and old. The present system already applies the "factor of output" quite unfairly as between men and women who are doing identical work, on the ground of needs; but are the needs of a bachelor more than those of a widow with children to support, or a woman with parents or an invalid husband in her care? Arguing by analogy, there seems nothing inherently unreasonable in discriminating between the married worker with dependent children and the worker without dependents. The principle is conceded with regard to unemployment benefits, where industry collectively sets aside certain sums for this purpose, and the worker receives them not according to his output, but according to his needs. The problem is more acute to-day, as Mr. Vibart shows, because marriages are later, and the proportion of married workers who have children in any number is much smaller; and it is therefore increasingly difficult for the family income to maintain a standard which is largely set by the childless families. The still high rate of maternal

and infantile mortality and the physique of a large proportion of the children in the national schools point to the same fact. Mr. Cohen stresses the fact that the family income should consist " of the competitive wage of the bread-winners, together with an extra amount provided in respect of dependents." But it must not be overlooked that whether an employer pays money into a pool for the payment of allowances, or pays it in insurance premiums, the amount will in either case enter into the " cost of production." Knowledge of the facts of an industry, as Mr. Vibart points out, is the workman's only safeguard against exploitation both now and under any scheme of insurance or industrial pool. Also any scheme must in the long run involve a redistribution of wages among the wage-earners, in favour of the married man with dependent children, just as sick or unemployment insurance involves redistributions in favour of the sick and the unemployed. The reader, after studying both these books, must consider which method is likely to be most acceptable to employers and workers in this country and have the least harmful reaction on production generally. On these points the writers give us little help. There is very much to be said for letting industry be responsible for its own workers; but, on the other hand, the nation as such undoubtedly has a responsibility to see that all its children are properly fed, and for practical purposes increased taxation is a difficult thing to contemplate in the near future. It is clearly time that this country seriously considered the whole question of family allowances, with a view to finding what scheme could be effectively worked here. Both these books should give a fresh impetus to the discussion.

E. D. LAYTON

A History of American Immigration, 1820–1924. By GEORGE M. STEPHENSON, Ph.D., University of Minnesota. (Boston: Ginn & Co. 1926. Pp. 316. 10*s*. 6*d*. net.)

Principles and Practices of Co-operative Marketing. By E. G. MEARS and M. O. TOBRINER. (Boston: Ginn & Co. 1926. Pp. viii + 580. $3.20.)

IT is not mere chance that an economic historian transplanted from England to the New World takes special interest in the two problems of Immigration and Agricultural Co-operation. For the one deals at its origin with the mass movement of persons across the ocean; and the other at its conclusion with the methods of large-scale marketing developed by the modern farmer for the

profitable disposal of his produce at home or abroad. In Canada the complementary relation is more precise; for in recent years much of the immigration and all the assisted male migration have been with a view to land settlement, and to the farmers of the Canadian West the overseas market is vital. The problems, therefore, in Canada are twin problems. But in the U.S.A. the distinguishing features of the New Immigration, which was the great majority of all immigration between 1890 and 1914, are that it came from the agricultural regions of East and South-east Europe, and that the bulk of it went into industrial or mining areas—over 80 per cent. to a North-eastern zone, which is only 18 per cent. in area of the continental United States. This fact was America's post-war immigration problem; for the Oriental problem was solved by exclusion—of the Chinese in 1882 and of the Japanese by the so-called Gentlemen's Agreement in 1907. The legislative prohibition of 1924, though it wounded Japan's feelings, did not alter any fact. And as regards agriculture, most of America's farming population is of native or "old immigration" stock, and the domestic market, by contrast with that of Canada, is to-day the market of outstanding importance.

This *History of American Immigration* is an adequate specimen of what is called in America a College Text, with the usual good bibliography. After a brief and compact survey of the several streams of immigration, nation by nation, our author traces the impact on party politics and the rôle, usually passive, which the immigrant has played in the party game. Then follow the three best chapters in the book, setting out the sequence of regulation, which produced over the veto of President Wilson the Literary Test of 1917: itself a stepping-stone to the drastic post-war legislation of 1921 and 1924. By these acts immigration is limited to a percentage of the foreign-born of each nationality already in the States; 3 per cent. according to the census of 1910 under the earlier Act, and 2 per cent. according to the census of 1890 under the later Act. The policy of limitation and of favour within the limit to British and North European stock is carried still further by the last minute amendment to the Act of 1924, which will take effect in July 1927. This limits the total to 150,000, as against 162,000, the 2 per cent. of 1890; and by being based on national origins, instead of foreign born only, it favours still further the British Isles; for the descendants of the Pilgrim Fathers and their generation are numbered now by millions. Since vacancies in the quota when not filled cannot be carried over, and since the British Isles will quite probably not be able to

supply their quota either directly or intermediately through Canada every year, the probable result will be to keep immigration well below the 150,000 mark—a notable contrast with the $1\frac{1}{4}$ millions of 1907 or 1914. The employers and the new Immigrants are naturally opposed to the restriction, but the employers have no chance against national feeling, and it is hoped that the new immigrants of pre-war days will be sufficiently Americanised in a few years to endorse the national view-point. If we are to criticise Mr. Stephenson, it is that he is so very sedate and non-committing. It is surface cultivation of a soil that is deep and angry; and so his book is less interesting than (to take one of many others) P. Roberts' *New Immigration* (1912), which, though frankly a plea for the open door, and already proved false in forecast of policy, nevertheless digs into the realities of the immigration process and its economic significance to American industry. Part III of Mr. Stephenson's book, Oriental Immigration, is hardly more than a bald survey of the leading incidents with a little very gentle criticism of the intolerant attitude, common to America and the principal British Dominions, and sadly opposed to the Christian ideals which the white men of these parts profess.

In *Principles and Practices of Co-operative Marketing*, Messrs. Mears and Tobriner have attempted a more difficult task, which is the analysis, by subjects—Fundamentals, Law, Business Practice, Regional Characteristics—of that profoundly interesting and mainly post-war growth, Agricultural Co-operation in the U.S.A. One of the authors having special legal knowledge, the chapters on constitution of societies and co-operative law are very good; and as the co-operative legislation of the different States varies considerably, this is important. The chapters on Business Practices (Handling, Financing, Marketing, etc.) are also good, for here America understands, as perhaps no other country, what she is about; and though, in fact, there is genuine idealism in the movement, American co-operators themselves, mindful of Utopian wrecks in the past, are among the first to stress the business side. In America you must "sell" co-operation, the genuine article no less than the false. A book such as this, with its detailed figures and charts, is only possible through the admirable co-operative compilations of the Bureau of Agricultural Economics at Washington; and the lack of similar work at Ottawa is for Canadians a very sad thing, seeing that the Wheat Pools are making history even more decisively than have the Californian Fruit Growers and their many imitators in the field of

perishable fruits. The authors write from the Pacific Coast, but one of them is an Easterner by training and previous occupation, and thus the balance is well preserved. As they urge, co-operative marketing in the States is much more than the California Plan, which itself is not one plan but many; and they are shrewd enough to abstain from a futile balancing of the federal with the unitary organisation and selecting one, regardless of time, place and commodity, as more truly co-operative. Nevertheless their book does not make easy reading, especially for a foreigner, for its 580 pages are loaded with figures, percentages, and excerpts from the practice of individual societies, so that the reader at times can hardly see the wood for the trees; and they tabulate opinions with the same ruthlessness as they tabulate facts. Professor A gives ten reasons for co-operation and three against; Professor B, seven, and so on. Moreover, it seems to us that when the authors go outside their own field, which is co-operative marketing in the U.S.A., they are superficial. Thus, on p. 93 an analogy is attempted between the industrial union and the craft union on the one hand, and the commodity organisation and locality organisation on the other. But the craft union is, first, *not* a locality organisation. It is the national organisation of a single craft, cutting across the vertical organisation of the productive sequence. And again (p. 226), those agricultural co-operatives (such as the Canadian wheat growers and the Californian dried fruit organisations), which dispense with capital stock, are wrongly contrasted with the "Rochdale scheme of Consumers' Co-operation," in which, of course, capital stock is present. The Rochdale scheme is *not* "in essence this plan of cash payment coupled with the issue of capital stock." The essence is the dividend on purchases; and when, as with the Canadian wheat growers, the market operations are financed by the withholding of payments and all the proceeds of the crop, some sums needed for income and working expenses are returned to the farmer in proportion to his deliveries. Then there is a very genuine analogy between the patronage dividend of the store and "profits back to the grower." For both avoid the situation which is fatal to all genuine co-operation—a disharmony between capital ownership and the use of the co-operative by its members. But it is ungracious to stress the shortcomings of a book which fills a difficult gap better than any other to date, which is judicious, sensible, and amply documented, and which will at any rate consign to the dust-heap some of those anti-co-operative trade publications which "the trade" so readily bestows upon seekers after co-operative light.

C. R. FAY

Marketing of Agricultural Products. By JAMES E. BOYLE, Ph.D. (McGraw-Hill Publishing Co., Ltd. 1925. Pp. viii + 479. 17*s.* 6*d.*)

AT the present time there is no problem the solution of which would do more to strengthen the economic position of the British farmer than that of the elimination of inefficiency in the marketing of his products. This is true, also, in varying degree of most countries, for in spite of the fact that the principles underlying a sound system of distribution have long been determined, and that these are clear and precise, their practical application presents many difficulties which have still to be surmounted. In all the more civilised countries of the world, the organisation of the distributor has proceeded more rapidly than that of the agricultural producer, and in Britain, particularly, the farmer has been less quick than the trader to learn the advantages of combination which wartime control of distribution emphasised so strongly. Take the case of meat. Meat is still marketed on the hoof by individual feeders in their nearest market, where it is bought by organised middlemen who have learned the folly of cut-throat competition. The farmer, in fact, still follows traditional practice, which was evolved when the district of which his market-town is the focus was more or less self-sufficing, and which takes no account of the complex changes introduced by the development of great centres of consumption.[1] Take, again, the case of milk. Here the producers have combined so as to bargain, with one voice, with the organised distributor. But the production of milk for sale as such is twice the quantity required by the public for liquid consumption, so that the effective control of price is in the hands of that party to the bargain who is equipped to manufacture the 50 per cent. of surplus. This is the distributor, not the producer, and the organisation of the latter for purposes of price-fixing is stultified.[2]

It is paradoxical, but true, that efficiency in marketing is the more difficult to secure as good markets abound. Thus, the Danes, with no outlet at home for the bacon and butter which they produce in great quantity surplus to their own requirements, have been compelled to organise a highly efficient marketing machine in order to find one overseas. The same is true of Californian garden produce. In this country, on the other hand, where the farmer cannot produce one-half of the food require-

[1] See F. J. Prewett, *The Marketing of Farm Produce: Part I. Live-stock* (Oxford University Press).

[2] Prewett, *op. cit., Part II. Milk.*

ments of the people, the ease of sale acts as an effective deterrent to the organisation of an efficient system of distribution.

Dr. Boyle's study of agricultural marketing is based exclusively on American experience. It is divided into two parts, "Principles" and "Programs" (*i.e.* practice). Under the former head he discusses all the fundamental questions: the effect of the consumer's preference; the place of the middleman; problems of transport; grading, standardisation, and so forth. After proceeding to consider other marketing principles, such as pooling, and the problem of surplus production ("there is the stubborn fact that the human stomach can be expanded very little"), he concludes the first division of his subject with chapters dealing with the distribution of particular commodities.

Three-quarters of the book are absorbed in this way, "Programs" occupying the smaller part. Under this head Dr. Boyle has much to say about Co-operation, and he has no illusions about it. "It is not a question of how much nervous joy or spiritual exaltation may be had out of co-operative selling, but the plain, cold business question of net cash returns." At the same time he claims that the United States leads the world in most forms of agricultural co-operation.

It is not possible to comment on Dr. Boyle's book in any detail here. It represents an immense amount of careful work, but it would be none the less valuable if it were heavily cut. It is overloaded with statistical matter, useless in this connection ("robbery" accounts for 0·08 per cent. of the loss of live-stock in transit), and with analogies and comparisons with other industries which tend to take the reader's mind off the main subject—agriculture. To the British reader discussions of market speculation in food products are a little unreal, and the long lists of questions for students with which each chapter concludes are typical of the country of origin. On some important points, too, Dr. Boyle seems rather to shirk the difficulty presented. At the present moment the problem of manufacturing surplus milk dominates the milk marketing position in England. "Who can operate the manufacturing business more efficiently, farmer or dealer?" asks Dr. Boyle, and leaves it at that. But these defects only serve to emphasise the general usefulness of the book for the purpose with which it was written, namely, that of a handbook on marketing for agricultural students.

C. S. ORWIN

Institute of Agricultural Research,
Oxford.

Combination in the American Bread Industry. By CARL L. ALSBERG, Director, Food Research Institute. (Stanford University Press, California. 1926. Pp. v + 148. Price $2.)

THE Food Research Institute was founded by the Carnegie Corporation of New York in 1921 in conjunction with the Trustees of Leland Stanford Junior University, California. It has already published a valuable series of " Wheat Studies," and the present publication is the third dealing with the baking industry in a miscellaneous series. The Director has now adventured into a region of which little is known except that for the last two years it has been in a condition of rapid change, and has performed the invaluable service of showing us the progress of combination while it is still in course of development.

At first sight the baking industry does not offer a favourable ground for combination. Bread-baking, taken separately from biscuit manufacture, is a widely-distributed, small-scale trade. Despite the advances in the application of baking machinery, " the most important step in the bread-making process, fermentation, is of necessity a small-scale operation," and, therefore, " the large-scale manufacturer can achieve mass production only by multiplying small units." Examination of the figures of the United States Census of Manufactures for 1919 shows that the value of product per wage-earner was greatest in the baking industry for the group of 1091 establishments with outputs between $100,000 and $500,000 and employing on the average under 24 persons; the value added by manufacture per wage-earner grew, it is true, with the growth of the establishment in size, but slowly, being $2963 for the group just mentioned and $3450 for establishments with an output of $1,000,000 and more. Difficulties of superintendence are very great in the large bakery, and the necessity of distributing the bread in a fresh state prohibits marketing over a wide area from a central institution.

There are, consequently, technical limits to the size of bakeries; but the question whether there are limits to the size of a corporation operating a chain of bakeries is still open. " The principal advantages of centralization of management," concludes Mr. Alsberg, " will come from pooling of purchases, from better technical control of manufacturing operations, from the possibility of comparing a large number of plants. Against these must be balanced the danger that a large number of plant managers each

as big as the nearly independent character of his position demands cannot be secured."

There were about 25,000 bakeries in the United States in 1920, and in 1917–18 over 800 baking plants were operated by concerns having two or more establishments and doing about 27 per cent. of the commercial baking of the country. Some bakery enterprises were of considerable size even before 1900, and they grew not by combination but by the building of new plants, by purchase of competitors, and by purchase of plants to secure an entry into new territory. From about 1907 there occurred consolidations of competing bakeries, either voluntarily or under the compulsion of creditors, in order to avoid the results of cut-throat competition. Shortly afterwards began an "efficiency" combination "aiming to bring under one management bakeries in different cities." Both movements still continue, but the period for which they were characteristic ended in 1922. "A new stage in the evolution of the industry in the United States" was opened in 1923 by the formation of the first holding corporation in baking, The United Bakeries Corporation. An intricate series of formations, purchases, and sales followed, in all of which the Ward family were prominent. By the end of 1925 there were three quite large combinations, the Continental Baking Corporation, the Purity Bakeries Corporation, and the General Baking Corporation, besides the Southern and some other smaller but important consolidations. There was also the Ward Baking Corporation and large wholesale and retail concerns mainly local in character. "There is no evidence of interlocking directorates, though certain of the combinations have some officers that were formerly closely associated with some of the officers of other combinations. Moreover, there is evidence of substantial stock ownership by the same persons in a number of different combinations."

The available particulars regarding the different companies or corporations are given in an appendix. It is difficult to measure the position which the baking combinations hold in the industry, but it is far different from that of the two companies which produce about 65 per cent. of the output of biscuits in the States. Mr. Alsberg concludes that commercial baking will grow with the growth of population and at the expense of home baking. Monopoly is "extremely unlikely" owing to the difficulties already described. "Nevertheless it is evident that bakery combinations are likely to be a success for a time, because of the low average efficiency of the industry as a whole." With growth in efficiency success will lie with bakers operating plants close to

the optimum size, the size of the concerns and the number of plants they own varying with the managerial ability of the owners. Chain grocery stores that sell bread as a leading line may also increase the practice of baking their own bread.

There is not much information as to the character of the financing of the bakery mergers, though over-capitalisation, in some cases at least, is certain. The prospect for investors depends on the management, which at present seems to be able. Mr. Alsberg does not think that consolidated buying is likely to affect the miller detrimentally, still less the wheat farmer. " Vertical integration " of baking with milling he does not regard as in the present line of development or likely to be profitable. With regard to the public, the " most probable benefit is the speeding up, through sharpening competition, of the achievement of greater efficiency by bakers in general—a process of evolution already going on. . . . On the other hand, there is no certainty that the great concern will speed up progress. The larger independents are quite as likely to force efficiency and progress on the combine as the other way round. On the other hand, there seems as little likelihood of results antagonistic to the public interest. There seems to be little danger of monopolistic price control, of objectionable policies toward labour, of serious danger to millers or wheat growers. There may be great disappointment of investors."

Mr. Alsberg fears that his essay " will satisfy neither progressives nor conservatives," but he can, in any event, comfort himself with the reflection that he has succeeded in his purpose, " to furnish the reader with a sound basis for forming a reasoned judgment."

H. W. Macrosty

The Tariff on Wool. By Mark A. Smith. (London: Allen & Unwin. 1926. Pp. xxii + 350. 10*s.*)

The present volume on *The Tariff on Wool* is one of the series issued by the Institute of Economics, and, like other studies in the same series, is inspired by the laudable motive " of ascertaining the facts about current economic problems." From the Director's preface it is gathered that the Institute has undertaken an analysis of the entire American system of customs duties, and that as a method of approach it will in the first place publish a series of special investigations on the tariff as it affects particular lines of production, of which indeed one has already appeared. Mr. Smith's work might therefore be described as a footnote to the

eternal controversy on Protection and Free Trade—a bulky and somewhat exhausting footnote, it is true, and perhaps, like other footnotes, in danger of being neglected by the reader who prefers the less gritty flow of words in which the general arguments on the two sides are usually pitted against each other. Nevertheless, to those countries which are blessed with a tariff, tariff questions are pre-eminently practical questions of administration with a record of oscillations, sometimes fairly rapid oscillations, between different altitudes of tariff. Granted, then, a sufficiently acute observer and chronicler in that economic laboratory which is constituted by the United States Tariff Administration, it ought to be possible, quite apart from any general argumentation, to deduce what have, in fact, been the consequences, to the nation and to groups of individuals, of the tariff on particular commodities.

Mr. Smith's careful study is, very logically, divided into three parts. There is, first, an account of the sheep industry throughout the world; secondly, there is a narrative of the history of the wool duties, and thirdly, a discussion of present problems. Wool is the product of the sheep, or, to be more precise, it is, as every first-year student knows, a joint product of the sheep along with mutton, and to a large extent the development of the sheep industry has been dominated by the fact that the sheep yields joint products. Broadly, the history of the sheep industry in America has been marked by a migration of sheep westward, the range system of breeding, primarily for wool, being replaced by a system under which sheep tend to become a by-product of general farming and to be viewed as potential mutton rather than as potential wool. This inevitably is accompanied by a change in the breed representing the " mode " in sheep, the merino being driven out by the cross-bred. The consequence is that in America the production of wool is no larger than it was thirty-five years ago. Nor is this phenomenon confined to America. Speaking generally, and subject only to minor qualifications, the tendency is towards a shrinkage of the wool supply of the world. So far as the tariff question in the United States is concerned, this means that the severity of foreign competition tends to be correspondingly mitigated.

The detailed history of the Wool Tariff, who may read and remember? In recent years wool was placed upon the free list in 1894, and so continued until 1897. The abolition of the tariff was certainly followed by a very considerable diminution and neglect of sheep, but it may be that this is merely to be regarded as

the culmination of a series of events which was in any case diminishing the profits of sheep. Mr. Smith's view is that down to 1913 the effect of the tariff was overshadowed by other and more general forces, such as the competition with other kinds of farm enterprise and the increased use of cotton and shoddy. The duty on wool was again abolished in 1913, but, the war supervening with all its complications of Government control, no legitimate inferences can be drawn as to the consequences of this step.

It is round the emergency tariff of 1921 and the Tariff Act of 1922 that the present controversy centres. This latter Act, by which the rate was finally fixed at 31 cents per scoured pound, gives wool a greater measure of protection than has prevailed at any previous time, apart from the minor exception of the emergency tariff. It is also a notable measure, because it revises the old-established classification, and it is further designed to abolish the " concealed protection " to the manufacturer resulting from the compensatory duties on woollen goods, which had got out of gear at an early period in their history. What (and here we come to the third part of Mr. Smith's dissertation) has been the effect of the tariff? What, in view of these effects, should future policy be?

At this point we touch more closely on matters which are of common concern, and perhaps for most readers the interest here will be occasioned by a question which will inevitably arise in his own mind. Ostensibly confined to the particular case of wool, how far are these arguments of general applicability, with almost as much point in the main argument on Protection as in an exemplificatory footnote? Here, as elsewhere, there are divergent views, occasioned by divergent interests, by varying emphasis on long-time and short-time policy, and by other considerations. Here, as elsewhere, it is true that there is "no permanence in industry, even in the absence of tariff revision" (p. 189). It is probably true in all cases (although it is here argued with much cogency in the particular case in question) that there can be no scientific basis to determine the amount of a duty, and that " the difference in the cost of production at home and abroad " (p. 194) is a deceitful guide and that others are equally illusory. The " pyramiding " of increased cost is no doubt also a common feature. Probably indeed the two considerations which are peculiar to wool—and they are of the utmost importance—are those already noted; firstly, the natural world-wide tendency towards a shrinkage of the wool supply occasioned by sheep sinking to a by-product of general farming, and secondly the fact that

the returns for sheep are derived jointly from wool and mutton. For this latter consideration means that if the producer, under the stimulus of a tariff, raises more sheep, they will incidentally produce more mutton. What they may gain as the result of higher prices on the one commodity they may lose by the glut occasioned in the other. The general summing-up of the essay is heavily in favour of free imports of wool, tempered by a recognition, which almost sounds like an echo of Adam Smith, that "the fact must be faced that there is at present a duty," and that "reduction would bring loss to all engaged in sheep raising, and to some it would doubtless bring bankruptcy" (p. 285). In conclusion, it may be permissible to recall the findings of Professor Taussig, written some years ago, before the more recent changes in the American tariff. "Surveying the situation as a whole," he said, "it is difficult to see any ground for the maintenance of duties upon wool except that of extreme and even fanatical protectionism," and then, after a summary which is strikingly in accordance with that of Mr. Smith, he added, that "if foreign supply is ever admitted to be advantageous, it must be so in the case of wool."

ALEXANDER GRAY

The University,
Aberdeen.

The American Wool Manufacture. By A. H. COLE (Cambridge, Mass.: Harvard University Press. 1926. 2 vols. $7.50.)

THIS is a history, economic, technical and commercial, from the earliest times, with a description and analysis of existing conditions. The technical thread is so closely twisted with the others that it is not quite easy to review the book without assuming knowledge of ring-doffers or Noble combs. But the main technical conclusions of interest to economists can be isolated. They are, that in what may be called the American woollen age, down to about 1850, America made very important contributions to the mechanism of the industry—Dorr's shearing machine of 1792; Goulding's "doffing" and "condensing" arrangements of the '20's, as a result of which the wool could go straight from the carding engines to the spinning, without going through the intermediate process of "slubbing" on a "billy"; and Crompton's "dobby" loom for fancy weaving of 1839–40. Subsequently, when America took over the modern worsted industry whole, she took European machinery, already very highly developed, and continues to use it. In 1910 (II. 82) all the

" French " combs in use were foreign built. So were 85 per cent. of the Noble (English) combs and 95 per cent. of the gill-boxes, which come between the comb and the spinning frame in the Bradford system of spinning. All that America has done latterly on the mechanical side has been to adapt the Northrop automatic loom for plain weaving.

Mr. Cole stresses the fact that, in the evolution of the American industry, only two types of organisation have really been represented—household industry and factory industry. There was neither a real handicraft nor a real outwork stage, though there was true handicraft in the early worsted manufacture (I. 19). It was to a country with household industry that the notorious English Act of 1699 applied. Mr. Cole finally disposes of the many misconceptions about that Act, with some of which Professor Ashley dealt long ago. It was " harmless," and " the difficulties of administration rendered " it " still more innocuous " (I. 43). There really never was the basis of an export trade from states where so very little cloth was made for market, so much on the farms for family use. When factories began, after independence had been won, they generally started at the small fulling mills which had been set up in the more densely populated districts for the convenience of the household industry. To fulling machinery the new carding machinery might be added—and so forward. Much of the capital came, as so often in history, from commerce (I. 227). Meanwhile the towns and the well-to-do bought imported cloth, as did the plantation-owners for their slaves; though there was a little slave industry and plenty of rustic white household industry in the South. The early mill-owners had the trouble in getting labour which one would expect. We hear of pauper 'prentices from the New York Almshouse about 1815 (I. 235); more often of the hiring of whole families who are lodged in homes belonging to the employer. By 1830 there were a few really big factories (262 employees is the highest figure given), many small ones, and a household industry which still supplied well over half the country's needs (I. 261).

The worsted factory industry only really began between 1859 and 1869, after all the critical inventions had been made in Europe. Its rise inevitably brings the tariff on to the stage. On tariff matters Mr. Cole is deliberately non-controversial. He treats the tariffs just as data and discusses their influence. On the whole he tends to minimise it. Things, like the decline of broadcloth, were attributed to a " free-trade " tariff which were really due to something else. The tariff helped the late nineteenth-

century worsted industry; but more important were the technical and commercial changes which gave America good supplies of combing wool. When only long wool was combed her position had been very disadvantageous. But Mr. Cole does not underestimate the importance of the terrific Republican tariffs of the last thirty years: " no considerable portions of the manufacture could as yet stand the full and direct competition of foreign industries " (II. 37). But for the tariff " we'd shut 'em up in a week," the more concise Yorkshireman used to say.

It is impossible here to summarise at all fully the thorough analysis of existing conditions given in Vol. II. Hours are now down about to the European level. Trade Unions are very weak. The personnel is hardly 100 per cent. American. Localisation is marked, especially of wool dealing and the worsted industry in New England. Marketing is dominated—as was to be expected—far more than in England by the bulk demand of the wholesale clothiers and the department stores. Golf and motoring have caused a revival in the manufacture of woollens—tweeds and overcoatings. The production of worsted tops for sale has made great progress in the last twenty years, but the English type of top-maker has not developed. The sanguine attempt of the American Woollen Company to create an export trade, in 1917–19, met the fate which might have been expected. In 1921 the Products Company, formed to carry it on, was liquidated (II. 243). About the great Woollen Company itself, not a monopoly but a dominant force in the market, Mr. Cole has much to offer; but as " the data published . . . are not adequate to give basis for very definite conclusions " (II. 247) about its earnings, one rises from the meal imperfectly fed.

A book of learning and of the greatest interest to what one might label a textile economist, but perhaps a little diffuse both in structure and style. It is rare to find a gap in an American bibliography, but Mr. Cole has missed James Burnley's *History of Wool and Wool-combing* and Professor Daniel's *Early History of the Lancashire Cotton Industry*. The latter would have helped to solve an obscure little technical problem in which he is interested—the origin of the " billy."

J. H. CLAPHAM

King's College,
Cambridge.

Der Weltmarkt 1913 *und Heute*. By DR. HERMANN LEVY, Berlin. (Teubner, Leipzig and Berlin. 1926. Pp. 116.)

DR. LEVY is not unknown to readers of this JOURNAL,[1] and his present book, from its subject, may well have an even better reception than his previous economic writings. It is a remarkably clear and sane survey of the industrial, commercial and fiscal effects of the War, with enough and not too much on the currency. Where political matters come in, as is unavoidable now and then, they are discussed without animus. The present chaos (says our author, p. 101) was foreseen by no one. Some of us, however, remember how impressively Viscount Grey foresaw it and impressed it on us, at the very outset of the War.

We need not reproduce the details from the book before us. Suffice to say that Dr. Levy gives us a painfully frank picture of facts painfully familiar to us all. One leading cause, he says, of the continuance of the present trouble is the desire that seems to possess every nation, small or great, oriental or occidental, to stand alone economically, to secure an impossible and uneconomic independence of all the rest of the world. This struggle for *Selbstversorgung* (p. 73, etc.) is seen in the English Safeguarding Acts and Colonial policies; it is seen in the endeavour of the United States to shake themselves free industrially and commercially from Europe (*Enteuropäisierung*, 75 *seq.*). The author makes full allowance for the spur given by the War to inventions (*e.g.* of substitutes for imported materials and implements). Many of them have survived the War and might have remained with us without any perverse new policy to account for their remaining (p. 46). But, he says, if this were all that had happened, there would have been a bent towards cheapness and less cost, whereas the outstanding fact is general dearness and greater cost, not to be explained by inflated currencies (p. 40 *seq.*, esp. p. 43). Instead of trying to make the cost as small as possible by widening the market, the nations, one and all, are straitening the market and raising tariff walls.[2] Yet greater production at less cost is the great need of the time (p. 108, etc.). Readjustment of War debts would certainly help us all, especially the weaker brethren. Dr. Levy does not press this point too much; and his stress is rather on the need for fiscal reform, in which he seems to include a departure by England from its All-

[1] His *Large and Small Holdings in England* was reviewed in 1911, p. 527; *Monopoly and Competition*, 1912, p. 89; *Economic Liberalism*, 1913, p. 413.

[2] See Sir Clive Morrison Bell's raised map shown in *The Times* of Oct. 1, 1926, and exhibited all over England.

British commercial policy (pp. 68, 109). A general international conference on the fiscal question should be recognised as a measure of extreme urgency (p. 110). He thinks there is no salvation, but rather perdition, in such international proposals as that of a universal Eight Hour Day, in which he sees mere protectionism on the part of the British workman anxious to make his competitors rise to his level of cost of living (p. 111). He has commendation, if not generally speaking for the Labour Party, at least for the Labour Government, which by the appointment of the Committee on Industry and Trade (1924), quoted usually as the Survey of Over Seas Markets, has provided him with a large portion of his facts and figures (*passim* and esp. p. 115). This does not mean that he accepts all the Committee's deductions from their evidence (see *e.g.* p. 68, note).

He is not himself, to use his own phrase, "a despairing hypochondriac" (p. 101), but believes there will be a change for the better. There *may*, after all, he thinks, come a time when nations will enter conferences with something better than the selfish desire to cast their burdens on their neighbours (p. 113). "In the which hope I blush and hide my sword." But the day of international public spirit makes few signs of its coming, whether in East or West or any other point of the compass.

J. BONAR

The Limited Market. By P. W. MARTIN. (London: George Allen & Unwin. Pp. 123. 4*s.* 6*d.*)

IF we pass on this book a judgment which the author may feel is harsh, he will probably comfort himself with the rejoinder that his arguments have been misunderstood, but he is not entitled to say that the misunderstanding is wilful. Mr. Martin views the trade cycle as a recurrent scarcity of markets, caused by the fact that the "community does not use all its buying power to pay for goods." There is the negligible leakage of hoarding, but "the real flaw in the machinery (of production and consumption) lies in the fact that to a very considerable extent buying power is used not to pay for goods, but to induce the production of more goods." This looks like a descendant of Mr. J. A. Hobson's family of over-savers, but as we proceed, we discover that Mr. Martin has no grievance with savings applied to construct factories or machines, for this is just the same as spending, since "buying power is being used to pay for goods." The villain of the piece is saving, whether by individuals or in the form of company reserves, which is used as "liquid" capital, that is,

to pay wages. " The flaw in the price system arises when money that has been paid to labour and capital as the price of their services, instead of being used by them to pay the price of goods, short-circuits back to industry and is used *a second* time in succession to pay the price of labour, *i.e.* to induce the production of more goods. To such an extent as this occurs, markets for goods must necessarily be lacking." " From time to time industry must increase its liquid capital. This means that part of the community's buying power which is needed to pay for goods, if equilibrium between the flow of prices is to be maintained, goes instead to induce the production of more goods for sale." Now puzzle our brains as we may, we cannot see why liquid capital is more wicked than any other kind of saving. It surely makes little difference whether I induce the production of more goods by building a new factory, or by increasing my working capital so that I may employ a second shift of workers. We can understand Mr. Hobson's theory, whatever we may think of its validity as the cause of the trade cycle, but we cannot understand how Mr. Martin has come to repudiate any connection with him.

Having thus unmasked the villain, Mr. Martin reveals two heroes, whose combined strength is, however, insufficient to neutralise the evil doings. The flaw is partly offset by the piling up of stocks of goods—a questionable fact in the early stages of a trade boom—and secondly by the reinforcement of the community's buying power through an increase in metallic currency, Government paper money, and/or bank credit. But these reinforcements of buying power are necessarily either less than sufficient, or more than sufficient, to counteract the flaw, and the ultimate result is the same in either case. This is the main cause of the trade cycle, but various time-lags and psychological factors increase the oscillation. The remedy is to arm the second hero with the powers of the State. " The first step will be for the Government, acting in agreement with the banks, to increase buying power until unemployment is reduced to its minimum. From that time on the Government and the banks will endeavour to adjust the additions to the community's buying power, so that it shall always be exactly sufficient to provide an adequate market for the goods offered for sale. Their guide in this will be the price-level." This is not, however, the same as the proposals of Professor Irving Fisher, Mr. J. M. Keynes and others, for they desire the stabilisation of the price level as " an end in itself," while here it is " a means to an end : that end being the scientific adjustment of buying power so that there shall

always be markets for the whole product of industry." This distinction seems rather fine, especially when the explanations in previous and subsequent sections are considered. It would have been more interesting perhaps if the author had compared his conclusions with those of Messrs. Foster and Catchings, and also perhaps Major Douglas.

Mr. Martin's diagnosis, in so far as we understand it, seems fallacious: his remedy is nothing new, and he adds nothing to the armoury of the advocates of price-stabilisation. But his book is nevertheless most attractively written; he undoubtedly has the power of forceful exposition and the ability to make economics vividly interesting. We shall greatly look forward to his next book—so long as it is not on the trade cycle.

J. W. F. Rowe

School of Economics,
London.

Davide Ricardo. By A. Loria. (Roma, 1926. Pp. 52.)

It is a remarkable fact that perhaps the greatest intellect which has turned to economic science should have been so neglected by the biographer. A very successful business man, a thinker of the highest order who shed enduring light on some of the most difficult aspects of economics, an influential member of Parliament, and in private life a charming and attractive personality, Ricardo still awaits a personal recognition which is his due as one of the outstanding figures of the nineteenth century.

Ricardo's position amongst economists is in striking contrast to that of Adam Smith, who had the immense advantage of joining to an unrivalled range of vision an eye for significant and picturesque detail and a style which will always make *The Wealth of Nations* one of the classics of English literature. Ricardo, on the other hand, has suffered from his difficult and often obscure manner of writing, from his lack of systematisation, and from his concentration on a narrow field comprising the most difficult and fundamental of economic problems. He did very much to enlarge the confines of economics, and his fundamental achievements have since been added (though some only recently) to the common stock of economic knowledge, but his work was greatly affected by the peculiar conditions of the times in which he wrote. *The Wealth of Nations* is far more modern in thought and expression than *The Principles of Political Economy,* and it remains to this day amazingly fresh and suggestive. The present

reviewer can remember on several occasions hearing Marshall, who certainly could not be accused of lack of respect for Ricardo, make use of the phrase, " Back to Adam Smith ! " when discussing the future progress of economics, but never " Back to Ricardo ! "

Professor Loria in his tiny study makes up in ardour what he lacks in space in which to develop his subject. He is the most enthusiastic of disciples, indeed he is *plus ricardien que Ricardo*, for, like McCulloch he reproaches his master for failing at times to carry his system of thought to its logical conclusion. Thus he regrets that Ricardo should have held that the value of money is governed by its quantity instead of by the quantity of labour incorporated in it. He refers to the famous letter of Ricardo to McCulloch just before the former's death, in which he complains that he is tormented by the problem of reconciling his doctrine on the theory of value with the fact of the increasing value of wine which matures with age without any addition of human labour. Professor Loria makes the witty comment that " Ricardo, as a theorist of value, drowned himself in a cask of wine." He believes, however, that Ricardo, had he lived, would have found the way out of his difficulty, " for the maturing of the wine resolves itself in fact into the accumulation of a technical capital, which creates a value exactly equal to the quantity of labour which has produced the wine multiplied by the rate of profit during the period of maturing." We wonder how many economists of the present day would agree with Professor Loria's explanation.

The writer brings out, though all too briefly, the immense importance and originality of Ricardo's discoveries in the realm of currency, banking, foreign trade and exchanges, especially in their relations to the problems of post-war finance. Here at least Ricardo is in no sense out of date, and Professor Loria rightly emphasises that the new light which appears to have been shed on these matters since the war of 1914 consists very largely in the development of principles already clearly laid down by Ricardo a hundred years ago, but forgotten by the majority of economists. In regard to these questions the world both of theory and practice has had to go back to school and sit again at the feet of Ricardo.

C. W. GUILLEBAUD

St. John's College, Cambridge.

Economic Development of Modern Europe. By FREDERIC A. OGG and WALTER R. SHARP. (Macmillan, 1926, pp. xv + 861. 16*s.*)

THE appearance of Frederic A. Ogg's well-known volume on the *Economic Development of Modern Europe* in a new edition is a valuable contribution to the text-book literature on European economic history. The events of the past ten years made such a revision imperative. As in the earlier edition, the years preceding 1750 are given but scant attention. Throughout the volume the economic development of Great Britain, France and Germany is stressed. The discussion of other European countries is incidental, only Russia being allotted a separate chapter. In some respects the new edition of the book is better balanced than the old. Even though the number of pages devoted to a discussion of labour legislation, socialism and social insurance remains the same (pp. 355 611), this emphasis is less striking, since a great deal of new material of a more general character has been added.

"The new world in which economic life is now lived," write the authors in the preface to the revised edition, "has made it necessary . . . to range considerably more widely, geographically and otherwise." This fact is clearly recognised in *Section V*, which has been added to the text as originally published. The subject matter included in this section is indicated by the titles of the chapter headings: *Population, Food Production, and Agrarian Reform since* 1914; *Industry and Oceanic Shipping in War-Time; Industrial and Commercial Recovery since* 1918; *Labour Economics in the Past Decade; Labour Movements and Social Politics; Some War and Post-War Problems in Public Finance.*

A carefully selected list of references is appended to every chapter. The book would have been improved had the authors added one or two chapters on the early modern period and a separate section devoted to the smaller European countries.

FELIX FLUGEL

University of California.

A History of Economic Progress in the United States. By WALTER W. JENNINGS. (New York, Thomas Y. Crowell Co. 1926. Pp. x + 819.)

ONE of the most recent books on American economic history to be added to the voluminous literature on this subject is Professor Walter Jennings' *A History of Economic Progress in the*

United States. As a compilation of facts pertaining to the economic development of the North-American continent it is unsurpassed by any of its predecessors; but as a contribution to the broader aspects of the economic evolution of this continent it is less satisfactory. To the historian the collection of facts is as essential as the assembling of materials is to those engaged in the construction of a building. However, curiosity, if nothing else, leads to the inquiry as to the general type of architecture which such a building is to represent. So with Professor Jennings' book. He neatly assembles his materials, but proceeds little beyond the point of erecting a framework with an elaborate scaffolding. Such a performance leaves us dissatisfied. Yet we have every reason to feel grateful towards the author for gathering into a single volume such a significant array of dates and figures. In addition to the minute information which he incorporates into the body of the text, a very useful appendix has been added. The reader, however, would have been far better satisfied had Professor Jennings been less inclined to use statistics and more liberal in his interpretation of the facts. Moreover, it should be mentioned that the social forces in American economic society are somewhat neglected, especially in the second half of the book.

Professor Jennings has made no use whatever of the graphic method of presenting the statistics he has gathered, and unfortunately has included but one map. Since this volume is intended to serve as a text in courses in economic history, the lack of both maps and charts is a serious omission.

That this volume represents painstaking effort on the part of the author has already been conceded. The book is faulty in so far as Professor Jennings has selected a slightly tedious method of presenting the results of his labours.

FELIX FLUGEL

University of California.

Some Early Tracts on Poor Relief. Edited by F. R. SALTER, M.A., with a preface by SIDNEY WEBB, M.P. (Methuen. Pp. 128. 5*s*.)

ON the 27th October was kept a solemn commemoration of the service done to his country and his time by C. S. Loch. His name, perhaps, means little to the rising generation, but men still in middle life remember with enthusiasm the war which he waged and the power which he wielded. As the moving spirit in the

Charity Organisation Society, he laid down, applied and enforced, through evil report and good report, the principles by which alone private beneficence can be administered usefully, or, at least, harmlessly. If his Society has lost its hold on us to-day the reasons are not far to seek. Its teaching and its practice assumed an individualism which is no more in fashion. It appealed to reason, and its appeal falls on deaf ears in a generation which would fain build life on feeling. The State has more and more encroached on its field of action by its insistence on the fact if not on the spirit of thrift, in insurance and the like.

At such a time a collection in one small volume of the records of various mediæval attempts to solve the problems of charity comes opportunely. Mr. Salter has done his work well. His selection is good, his translation easy and pointed, his notes few and informing. Mr. Sidney Webb's preface does just what a preface should, for it gives us guidance in our reading. As he says, we are too apt to localise all such attempts in our own country and to date all constructive effort from legislation in 1601, whereas the fact is that the difficulties in administering reach further back, and are peculiar to no country. Belgium, France, Germany and Switzerland all passed through similar experiences in the early years of the sixteenth century. In each country " men of light and leading " did their best to win a place for reason in charity. If Vives gives us the principles which should govern administration, the history of Ypres shows us their practical application. Luther and Zwingli come before us as social reformers, clear, definite and limited. Rouen is in the van of progress, with its municipal system of organised relief. Here are some points of special interest.

(1) The origin of vagrancy, at least as great an evil then as now, is often traced to pilgrims and students. At Zurich and at Rouen pilgrims are a class by themselves, and their assistance is often the object of endowments. Foreign students were to be refused help from the Common Chest, and were " to provide their own upkeep and livelihood."

(2) Everywhere begging is sternly suppressed, unless it be by licence and the result of unemployment. (Edie Ochiltree must have been an exception.) As so often in social legislation, two motives are involved: first, that all able-bodied should earn their own living and not be a charge on their neighbours, and secondly, a leaning towards protection: relief should go only to fellow-townsmen, in the spirit of the Acts of Settlement—in homely Scots, the herring guts were to be for " our ain sea-mews."

Such enactments are perhaps specially severe where Protestantism implied individualism.

(3) Everywhere we find agreement that aged, impotent and sick folk should be a charge on the charitable or the community. It sends a shudder through the reader to-day to learn that relief should not be given to those "who do not attend sermons." There is a modern note in the criticism of those "who throw aside all shame and beg the moment they lack mustard."

(4) The difficulty of finding funds to put in practice and carry through the "best-laid schemes" was as great then as now. Charitable sources are exhausted, persuasion, moral and religious, fails to make up the deficit, and at last a compulsory rate is levied.

So the world goes on. History, they say, repeats itself. Be that as it may, all who are interested in the relief of their poorer neighbours—and who is not?—will do well to turn to Mr. Salter and see how their difficulties were faced in mediæval times. At bottom the problem is the same. How can individual benevolence co-operate with the State in poor relief? How can the moral fibre of the individual resist the insidious decay caused by provision independent of exertion? These questions baffle each generation in turn and the end is not yet.

L. R. PHELPS

Oriel College,
Oxford.

The Economic Development of Russia, 1905–1914, with special reference to trade, industry and finance. By MARGARET S. MILLER, M.A., B.Com., Ph.D. (London: P. S. King & Son, Ltd. 1926. Pp. xviii + 311; 2 maps. 8vo. 12*s*. 6*d*.)

DR. M. S. MILLER begins her work with the fully justified statement that "of Russia it may truly be said that no country has inspired more profound or sustained interest, and no country has been less clearly understood by her neighbours." Indeed if even Russia's next-door neighbours know so little about this most extensive realm in the world, still less is known to remoter people of that country of "unlimited possibilities." This book —both by its subject and its treatment—fills up to a significant degree this gap in economic literature.

First of all it is necessary to emphasise the choice by the author of the period of inquiry: 1905–1914. The results of the industrial crisis of 1902, the unsuccessful Russo-Japanese War

with its disturbing consequences for the national economy and the political system, the breaking up of the autocratic-bureaucratic regime into a pseudo-constitutional one—these are the starting-points of the period. The great agrarian reform of P. A. Stolypin (separate farms for peasants and systematic transmigration), the boom in some commercial and industrial concerns and depression in other branches of national economy, the introduction of trusts and syndicates into industry, the strengthening of the Imperial finance, development of popular education, reorganisation of the army and navy, strife in the State Duma—these are distinct milestones of the decade under review. Deepening dissension and mutual animosity between the Government and social circles of the country, at the same time the prospects of a future building of Russia by the united efforts of a trade community which had become conscious of its own importance, the growing participation of the latter in political life, the further growth of capitalism and consequent proletarisation of town and pauperisation of village, and, at last, the great fire of the World War—these are the concluding chords of this historical decade.

The author has in view the twofold aim of (1) "presenting as accurate a picture as possible of the actual facts of Russia's economic development during the decade preceding the Great War; (2) tracing the predominant influence of State action in the various spheres of economic activity, and seeing to what extent development within these spheres was influenced by the conflict which we have noted between Government action on the one hand and fundamental social development on the other."

The author's erudition, for a foreigner, is extensive and deep. The tendency to make the book as practical as possible is reflected in the choice of materials interpreted by more or less conspicuous public men, publicists and economists. But many official prime sources—such as, for instance, the yearly budget proposals with explanatory notes by the Minister of Finance, the reports of the State Controller, the summary tables of prices of goods, the statistics of products liable to excise duties, the Annuals of the Ministry of Finance, the Statistical Compendium (for one year only) of the Council of Congresses of the Representatives of Commerce and Industry, the series of statistical editions of the other financial, commercial and industrial associations, etc., etc.—have not been directly utilised. And the utilisation of these materials would have given numerous tables in the book the statistical symmetry and complete continuity which are desirable in publications of this kind.

As regards the substance of this treatment, the author skilfully and sympathetically introduces the reader into the phenomena and peculiarities of Russia's public and social life : district and town local self-government, peasant community, village crafts or home industries (" Kustarny " and " migratory " trades), the class variations of "intelligentsia" and bureaucracy. There is, however, one side in this investigation which it is impossible to pass without comment. The author's approach to Russia's problems sometimes reflects economic views more applicable to countries with highly developed imports and exports. This is proved by the very order of distribution of the material of the book : commerce, finance, the monetary system, State debt, State budget, means of communication and industry; and further by the prevalence of descriptive and statistical material in the heavy and middling industries to the detriment of the basic economic backbone of the country agriculture and breeding of cattle. It is true that the author has tried to excuse herself in this matter. " The obvious omissions in the book, such as the absence of any reference to internal trade, or to the interesting development of the co-operative movement, the inadequate references to agriculture, must be ascribed simply to lack of time." This does not seem to me a sufficient reason for permitting such an omission in scientific work accomplished so well in its other parts. It is a pity that the work of the Russian economist, J. M. Goldstein, has been overlooked.

Combination of the two aims kept in view by the author is not always in equilibrium. Sometimes the second aim seems to prevail to the detriment of the first one; the initiative, self-activity, creativeness in the domains of Industry, Commerce and Finance (Chaps. V, VIII-XIII) seem to be illuminated one-sidedly. For example, in the chapter on " Banking," one would like to see more data illustrating the activities of Societies for Mutual Credit, the Central Bank in St. Petersburg, Moscow Narodny (People's) Bank, Ukraina Co-operative Bank in Kiev, also the work of private banks (in particular their turnovers, trends to fusion, etc.). In the same chapter there are some inaccuracies as to the dates of establishment of certain State, Social and Private Credit Institutes. Amongst them there are not mentioned : (1) Auxiliary-Saving Banks, (2) " Mir " capitals, (3) Private Loan Offices (" Lombards ").

The wish for greater completeness and the analysis of data applies also to the budgets of the organs of local self-government (Chap. VII), which so steadily defended their rights, granted in

the " Epoch of the Great Reforms," against reactionary politics. Municipalities, and particularly " Zemstvos," willingly or unwillingly acted as conductors of independent social opinion and social self-activity; the same appreciation may be applied to the co-operative movement, the examination and valuation whereof are contained in Dr. Miller's separate work.

The author presents the results of her investigations in a conclusion (Chap. XIV) written with much freshness of thought and elegance of style, social penetration and impartiality. Her work, in its broad picture of Russia's economico-sociological structure before the war, is of much interest to economic students.

S. F. IVANOV

Soviet Union Year-Book, 1926. Compiled and edited by LOUIS SEGAL, Ph.D., and A. A. SANTALOV. (Allen & Unwin. Pp. xxx + 511. 7*s*. 6*d*.)

AMONG the countries eager to attract the attention of the Western investor is the U.S.S.R. But foreign debt uncertainty retards foreign investments which otherwise might here and there have been attracted by protection. The U.S.S.R. is forced into the *furculæ Caudinæ* of granting foreign concessions together with dangerously unpopular privileges to the foreigner. Friction without profit has been experienced by the adventurous German firms. Twenty pages of the Year-Book on concessions, with maps, crude reprints from a Russian pre-war Encyclopædia, give an attractive idea of the principles of policy and of the wealth of mineral resources.

Along with a disruption of trade, a loss of capital, and a withdrawal of credit facilities, we see in Russia the advent of a new and inexperienced class of traders: the former " bourgeois " has been replaced by an amateurish Communist officialdom with only a slight sprinkling of suspect bourgeois experts. Furthermore, the credit of the State is compromised by the attitude adopted towards its creditors. Commercial enterprise is not conceived except in fear and trembling, for any display of prosperity excites the avidity of a State in permanent financial embarrassment. The Year-Book in its legal section omits the provisions of the Civil Code which are basic and unpleasant to vested interests. The Penal Code, with its concept of punishable speculation, is not quoted, nor is there any mention made that on principle any matter can be dealt with by any one of the three powers, the legislative, the executive and the judiciary. Their separation

is considered a mere bourgeois trick, and, what accounts for more in the rejection of the principle, an obstacle to the arbitrary action of the dictatorial powers. It is in keeping with the compilers' idea of reliable information that in the section on finance the interesting topic of the forced loans is passed in silence. The short historical summary under the heading "Budget" is carefully purged of the most characteristic Communist financial spices. The activities of the State Savings Banks are visualised in the Year-Book by a table showing an increase of savings between February 1923 and October 1925. Rykov, the head of the Soviet Government, at the recent Communist conference mentioned the insignificance of the people's savings in the saving banks, which were only 6 per cent. of the pre-war amount.

The main problem is not whether the figures referring to progress in agriculture and industry under mitigated communism are more or less correct—if we follow the argument of the leading Soviet statisticians they are mostly not—but whether the recuperative process, if any, is actually hampered or produced by the present system. Even the Soviet Union Year-Book is unable to show any greater success on the part of the Sovietists. The 120 pages on Foreign Trade monopoly, which according to Dr. Haden Guest will carry the day everywhere, fail to show that this principle is being especially successfully applied by the Communist rulers, notwithstanding their privilege of wielding an iron rod in its service.

The list of twenty-six organisations conducting the foreign trade of the Soviet Union in Great Britain, and the twenty-three representatives in London alone of Soviet foreign trade and economic organisations, when paying cash, are attractive enough to the business men of this and other countries and a good deal of ephemeral business is being done. The present clients of the Soviet Union have a distinct interest in strengthening her still very modest credit, and will no doubt accept the Year-Book and similar official publications as valid evidence. They will herein be supported by those who, in despair over the sterility of common-sense, find a refuge in vision.

A. Meyendorff

The Modern State. By R. M. MacIver. (Oxford: Clarendon Press. Pp. xii + 504. 21*s*.)

Those who know Mr. MacIver's interesting and stimulating book *Community* will welcome the appearance of this volume on political theory, which more than fulfils the promise of that earlier work. It is the most balanced and consistently worked-out presentation of that recent tendency in political theory which may be described as a reaction against the Hegelian identification of Society and the State, of which view Bosanquet was the most typical representative. The distinction between Society and the State is for Mr. MacIver essential, and he is never tired of insisting on it. He would probably say with justice that his work is not a mere reaction against but rather a continuation of Bosanquet's, but he would insist that the criticisms of Bosanquet and his school against the abstract individualism of the earlier nineteenth-century writers were primarily criticisms of those writers' views of Society and the nature of social relations. Once, however, we have learned the lesson, which the Hegelians have to teach, of the unreality of the abstract individual and the essentially social character of man, we must go on to distinguish between man's various social relations and recognise within Society in general (or, as Mr. MacIver prefers to say, within the community) differing forms of social relation and organisation, only one of which is the State. The State is not and cannot be a name for any all-embracing comprehensive relation, and the purpose of political theory is to distinguish the nature and purpose of the political organisation which is called the State from other forms of organisation like the Church and economic organisations. The great defect of Bosanquet's philosophical theory of the State, Mr. MacIver would say (and in this he is surely right), is that Bosanquet is forced to use the word in two quite different senses—firstly as equivalent to the whole socially-organised community, and secondly as a political organisation which enforces law.

With this criticism goes the attack on the absolute theory of Sovereignty and the doctrine of the personality of the State. Mr. MacIver is an individualist as contrasted with Bosanquet, in the sense that for him the purpose of the State can only show itself in the lives of individual persons and its value for personality. The State, therefore, cannot be an end in itself; it can only be an instrument, and must be judged entirely on the extent to which it serves the ends of personality. As an instrument it must be

compared with other instruments, and its powers and sphere must be determined by the work it is fit for.

The main problem which any such theory has to face is the problem of Sovereignty. If the traditional theory of Sovereignty as it is expressed either in Austin or in Bosanquet be given up, and with it the notion that the State is so distinct and unique that it cannot even be compared with other institutions, some satisfactory account must be given of its peculiar nature. Mr. MacIver holds that coercive power is a criterion of the State but not its essence. A State differs from other associations in that it insists on a monopoly of coercive power, and it must do this because of its peculiar relation to territorial organisation and because of the specific tasks which it has to perform. These tasks, the first and greatest of which is the preservation of order, involve the use of coercive power, but that coercive power does not constitute the State; rather, it is only the universal sense of the necessity of this particular kind of universal regulation which produces the State's coercive power. Because there are some things which coercion cannot do in society : there are things which are essential to the life of the community which cannot be done by coercive organisation, and which must therefore be left to other organisations. The State can never become either the Church or an all-inclusive economic organisation, though this is not to mean that the State is bound to leave other organisations entirely alone. The other organisations have their own life and their own development. Mr. MacIver shows very well how increasingly in modern society cultural and economic organisations go their own way, produce their own loyalties, and can in no sense be said to be the creation of the State. Nevertheless, because the State is concerned with the maintenance of order and universal justice, there is no sphere of society with which it is not concerned. As Mr. MacIver says, " the essential difference between other associations and the State lies just in this, that the other associations are limited by their objective, which is particular, whereas the State is limited primarily by its instrument, which is particular, while its objective is general within the limits so imposed." That means, for example, when we consider the action of the State in the economic sphere, that we must give up Mill's attempt to find any sphere in which the State has no right to interfere, and must content ourselves with understanding the kind of work the State can do; and that therefore we shall decide in questions about the limitations of State interference empirically, and not on any abstract principle. But it must always be borne

in mind that any attempt to swallow up the cultural or economic activities in political activities is bound to fail.

Mr. MacIver works out this whole position in a very interesting and instructive way. The main difficulty I find in his theory is in his conception of community. The State, as we have seen, is for him one among other organisations which serve the community; but he sometimes fails to realise the importance of the fact that one "community" (in his sense) is differentiated from another "community" by political relations—in other words, by the State. Society as distinguished from the State is essentially something vague, existing in degrees, having no clear-cut boundaries; but a community whose organ is the State must have, as Mr. MacIver himself says, definite territorial boundaries. These boundaries are determined by political relations, that is, by the State; there is therefore a sense in which the State, to a degree more than Mr. MacIver will allow, constitutes the community; and Mr. MacIver's account of Sovereignty seems to me all through more successful on its critical than on its constructive side. No one could state more admirably the difficulties and defects of the old doctrine, but his positive statements about Sovereignty seem to me rather vague and unsatisfactory.

Mr. MacIver works out his doctrine of the limited function of the State by considering in especial detail the relation between State and Church, and here, though he has many excellent things to say, I think he errs by not being sufficiently faithful to his own principle. His principle commits him to saying that the State cannot be a Church or do a Church's work, but it in no way commits him to saying that a State cannot recognise that the work of a Church is essential to a community and therefore to be supported in such ways as are possible to the State. But Mr. MacIver's chapter on the relation of State and Church expresses an extreme voluntaryism for which on his own principles there seems to be no warrant. The point is important in relation to more problems than this between State and Church. In an increasing degree in modern society the State is coming to recognise that there are certain things which are essential to a community but which cannot well be done by the coercive or statutory body, and which yet the State ought to get done. This is, for example, most obvious in the sphere of education. There are certain types of education which depend for their effectiveness on the help of voluntary organisation, which at the same time a voluntary organisation cannot give without support and assistance from the State and of late years we have been seeing an increasing co-

operation in education and many other social functions between statutory and non-statutory bodies. If Mr. MacIver had had such developments more in mind he could have worked out the application of his principle—that State functions are limited by the nature of the instrument—in a much more convincing way, and in a way which would have been much more illuminating, in the chapter on economic and political power.

There are one or two curious small mistakes in the book which should be corrected in a second edition. Mr. MacIver writes on p. 100 as though Gortyn were a lawgiver and not a city. He seems to think (p. 170) that the opposite of an Erastian is an Arminian. He has already been scolded by Professor Laski for referring on p. 156 to " a certain Dr. Troeltsch," and the scolding was deserved.

A. D. LINDSAY

Balliol College,
Oxford.

Constitution, Functions and Finance of Indian Municipalities. By K. T. SHAH and G. J. BAHADURI. (P. S. King, 1925. Pp. 514. 25s.)

Outlines of Indian Constitutional History. By W. A. J. ARCHBOLD. (P. S. King, 1926. Pp. 360. 18s.)

IN the first-mentioned work the authors have undertaken a critical examination of what are considered the most important problems of municipal institutions in India. Looking to the great number of these municipalities, some 772, the study has been confined largely to a few of the leading corporations. The constitutions of these bodies are based on Acts of the Provincial Legislative Councils, but, though differing materially in detail, they are framed on common lines. In all, representation is on a somewhat restricted basis: in some, the principle of communal representation has been adhered to, in others it has been definitely dropped: in practically all, the Government reserves to itself the right of nominating a varying number of members to the Municipal Councils. In the earlier constituent Acts the English model was generally followed; after a somewhat troubled period of existence, amending Acts were passed creating a statutory executive authority on which special powers were conferred. The chief executive officer is in some cases appointed by Government; in others, its approval to the appointment is required. But the theory of the separation of the executive and legislative, or

deliberative, authority has not been carried to the same lengths as in some continental countries. The Indian method is a compromise between the English and continental, leaning more to the former by the retention of standing committees. In all the Provincial Acts the powers, functions and duties of the Councils are strictly prescribed. The authors find a great deal to criticise in this system. As whole-hearted supporters of the extension of municipal authority they view with disfavour the interference of Government in civic affairs, or the overriding of the powers of the municipality as a whole by a municipal executive. Their ideal seems to be a miniature Parliament with a President and executive Ministers appointed by and subject to the control of the Council. With more complete independence of action a greatly extended activity is visualised, particularly in the direction of taking over and running public utility services and in embarking on trading enterprise. On this point it is sufficient to note that the only country in which such activities have proved an unqualified success is Germany, where the executive consists of permanent expert officials in a large measure independent of the control of the Councils. A more novel proposal is that the municipalities should not confine themselves to public utility services, but should be empowered to take over the leading industries of the city. It is suggested that to increase the general revenues and lower the taxation rate, the Bombay municipality should take over the cotton industry, which is estimated to yield Rs.1 crore per annum. Similarly, in Calcutta it is suggested that "the case of the jute industry is even more ripe for municipalisation." The arguments for this revolutionary departure in municipal enterprise seem hardly conclusive. The Bombay cotton industry is said to be in a "hopelessly perilous condition": if this is accepted, the venture might not turn out profitably. In the case of the jute industry, from which the Calcutta municipality is promised 25 lakhs of revenue, it is urged that, though the bulk of the shareholders are Indians, yet the management does not welcome the service of Indians. The geographical difficulty that only a negligible number of the mills, the figures of whose profits are quoted, are actually situated within municipal limits is ignored. The argument that "if the municipal domain, particularly the industrial and trading, were fully developed . . . the needful revenues would be supplied from the surplus of municipal enterprise," would possibly appeal to a certain section of rate-payers, but it is difficult to see how the doctrine could be confined to the towns and, if the advantages urged can really be obtained by

abolishing private enterprise, why profitable industries generally should not be nationalised.

The most interesting portions of the book are those dealing with municipal finance. The total income of all Indian municipalities for the year 1923–4 was returned at 44 crores of rupees. As is pointed out, this figure is somewhat misleading, since the aggregate includes a number of special items, such as grants, loans, advances, etc. It is estimated that the regular municipal income amounted to no more than 14 crores. Of this total, 10 crores were derived from rates and taxes and the rest from miscellaneous sources. The incidence per head of population from rates and taxes amounted to Rs. 5, 7 ans., and the total incidence of revenue to R 12 ans. The bulk of the revenue in the more advanced municipalities is derived from the rates and taxes, but the octroi, or other forms of town duties, such as the terminal tax, are still retained in many of both the larger and smaller towns, and this form of indirect taxation is undoubtedly more popular.

Some striking comparisons are given of the distribution of expenditure in Indian municipalities with those of other countries. In India no less than 60 per cent. of the revenues are devoted to the purposes of public health and convenience; 9 per cent. to interest and sinking fund charges; 8·25 per cent. to public instruction, and 8·5 per cent. to general administration. It is remarked that India seems to spend a disproportionately small sum on educational items and police, and a proportionately larger amount on salaries and allowances. An examination of the items shows that the cost of water supply, drainage and conservancy are heavy as compared with English towns, and absorb a larger proportion of the revenues. The bulk of the debt has been incurred in carrying out schemes of water supply and drainage; in the four leading cities no less than 66 per cent. of the aggregate indebtedness has been incurred for these purposes. Judged by the English standard the borrowings of the Indian municipalities appear light; those of the four leading cities being within the region of 23 crores.

Though a scheme of city socialism is advanced as the end and aim of Municipal Government, the book is by no means confined to the advocacy of this proposition. The subject matter set out in the title has been closely and carefully studied, and much valuable information regarding the working and finances of Indian municipalities has been collated. The weakness of the book lies in the fact that the outcome of similar socialistic or communistic experiments elsewhere and the peculiar dangers

to which they are exposed are disregarded, while alternative schemes for social improvement, which command at least as much attention in advanced democratic countries, by securing some form of partnership in industry, are ignored. It may turn out that when more closely associated with the management the workers will show little inclination to make over the control, either to State officials, or municipal councillors.

In the other work on Indian matters, the author has set out to trace, in a book of moderate dimensions, the constitutional developments of British India down to the time of the Montagu-Chelmsford Reform Scheme. In dealing first with a Chartered Company and then with a Dependency, a somewhat elastic interpretation has to be given to the term "constitutional history." The early chapters are devoted to an account of the various Charters under which the Company received its rights and privileges, and the modifications introduced by successive regulating Acts. The steps are traced by which from simple beginnings the elaborate framework of local administration was built up. Few problems caused such perplexity to the British administrators as the organisation of the legal machinery in their newly conquered territories. The evolution of the present somewhat complicated system of legal establishments is clearly and succinctly described in the chapter on the Law Courts. With the passing of the East India Company the lines of constitutional growth become more marked, and their course is followed from the creation of a Legislative Council, through successive measures for the increase of the elected element and the widening of its powers, up to the Government of India Act of 1919, the main provisions of which are quoted *in extenso* in the concluding chapters.

The book, as its title purports, outlines only the main features of these developments, and does not attempt to throw any new light on them; while its scope is too limited to admit of discussion on their results. The student will find the most material information on the subject summarised in a convenient form.

H. R. C. HAILEY

NOTES AND MEMORANDA

The Gold Points of the Exchanges To-day

Between 1914 and 1925, while the United States was almost the only country on a gold basis, very little was heard of gold points. Since the restoration of the gold standard in Great Britain and a number of other countries, however, it has become evident that certain changes have taken place since the war in the factors affecting gold points which deserve the attention of both practical cambists and theoretical economists.

It is a common but superficial conception to regard gold points as something essentially stable, bearing a fixed relation to mint parities. In reality, even before the war, when the factors determining the gold points were more settled than at present, gold points were subject to changes. Though before 1914, alterations in freight rates for gold were not as frequent as now, the development of transport and the general trend of freight rates did not leave them unaffected. Nor did they escape the influence of local and temporary factors. The rate of interest was naturally an unstable factor, while insurance rates were also subject to alteration. The only items in the cost of gold shipment which remained unchanged for very long periods were the cost of packing and assay, representing a very small fraction of the total cost.

Apart from changes in the cost of gold shipment from time to time, gold points were not necessarily fixed figures even at any given moment. Freight rates were lower for the shipment of large quantities, while insurance rates tended to be higher if a large quantity was shipped on one particular boat. There was, moreover, a difference between the point at which it becomes profitable to ship gold by banks with offices in both centres concerned, by those having to pay commission on one side, and those having to pay a commission on both sides.

If, as is seen above, gold points were relative and subject to changes even before the war, they have become much more unstable now. While during the last few years preceding the war the freight rate for gold between London and New York was fixed

at $\frac{3}{16}$ per cent., at present it has not settled down yet to any definite figure. Soon after Great Britain's return to gold, the shipping companies participating in the Atlantic freight pool agreed upon charging a uniform rate of 5*s*. per £100. Owing to French competition, however, this rate had to be reduced recently to 13*s*. 9*d*., but on days when there is no French fast steamer the old rate is charged. The rate of interest also tends to fluctuate within much wider limits than before the war.

The following calculations—based on the assumption that the transaction is carried out either by a firm having offices both in London and New York, or by a London and a New York firm on joint account, so that no commission is included among the expenses—shows the changes in the gold export point of the sterling-dollar exchange since before the war :

PRESENT GOLD POINT

	£	s.	d.
100,000 fine ounces of gold @ 84*s*. 11½*d*.	424,791	13	4
Freight @ 3*s*. 9*d*. per £100 for £424,800	796	10	0
Insurance @ 1*s*. per £100 for £428,000	214	0	0
Interest 5 per cent. on £424,792 for 8 days	465	10	5
Boxes and Packing	16	0	0
	426,283	13	9

100,000 fine ounces @ $20.67183	$2,067,183
Incidental charges in New York	206
Net proceeds	$2,066,977

£1 = $4.8488

PRE-WAR GOLD POINT

	£	s.	d.
100,000 fine ounces of gold @ 84*s*. 11½*d*.	424,791	13	4
Freight @ 3*s*. 9*d*. per £100 for £424,800	713	8	0
Insurance @ 9*d*. per £100 for £428,000	160	10	0
Interest 4 per cent. on £424,792 for 8 days	372	8	4
Boxes and Packing	16	0	0
	426,083	19	8

100,000 fine ounces @ $20.67183	$2,067,183
Incidental charges in New York	150
Net proceeds	$2,067,033

£1 = $4.8512

Owing to the higher insurance and interest rates, the gold export point is thus below its pre-war figure by about $\frac{1}{4}$ cent., but this difference is likely to disappear in the course of the next year or two. It will be noticed that insurance has been calculated

for an amount slightly in excess of the actual value of the shipment, plus expenses. This is a generally adopted practice, as it is taken for granted that gold shipments are urgent, so that the shippers are entitled to some compensation, on account of the delay, in case of the loss of the dispatch. The excess is usually around 5 per cent. for shipments to New York, but it attains 10 per cent. for shipments to India. For the sake of simplicity, interest has been calculated for 8 days for the whole amount, though under normal conditions 7 days are sufficient. As the Federal Reserve Bank retains 5 per cent. of the value of gold pending the result of the assay, the additional day makes allowance for the loss of interest thus incurred. It is customary to calculate the interest on the basis of the bank rate, though in practice the loss of interest is determined by the market rate. At the time of writing, the transaction could well be financed in New York on a 4 per cent. basis, so that the actual gold export point is not far from 4·85, and above that figure if gold bars are obtainable in the open market at a price below 84*s.* 11½*d.* per fine ounce.

The development of aviation has brought about some changes in the gold points of continental exchanges, through affecting the three principal factors of gold points, viz. freight, insurance, and interest. The extent of these changes has been comparatively moderate up to the present, but they may foreshadow greater ones. Wherever there is direct air service between two gold markets, the aeroplane has a fair chance of competing successfully with the boat. There is, indeed, a keen competition between air lines and shipping companies, as a result of which freight rates for gold have been substantially reduced in certain cases. The air service is particularly at an advantage with regard to the transport of comparatively small amounts, as shipping costs are in an inverse proportion with the quantity of any single transport, while the cost of air transport is practically the same for small and large amounts. Thus, apart from a general reduction of the cost of gold transport, the adoption of the aeroplane as a means for gold transport tends to encourage the movement of comparatively small sums. This, in turn, will make gold arbitrage accessible for smaller firms which could not hitherto afford it. Before the war, the transport of large amounts became profitable while the transport of small quantities was still unprofitable, and the operations of wholesale arbitrageurs usually readjusted the exchange before the retail arbitrageurs had a chance to operate. At present, under certain conditions, the dispatch of gold in small quantities by aeroplanes may become

profitable before its transport by ship in large quantities becomes profitable. An example to illustrate this development was the export of large quantities of gold to Spain during the summer of 1926 and early in 1927, mostly in sums of between £10,000 and £50,000. The transactions were the result of the discrepancy between the peseta exchange and the premium on gold for customs duties, fixed by the Spanish authorities often slightly above the actual market premium. But for the possibility of transport by air, small arbitrageurs may not have had a chance to take advantage of the discrepancy, which would have only justified the shipment of large quantities by boat. Whether the "democratisation" of gold arbitrage is an advantage or a disadvantage is open to discussion. Unquestionably it is an interesting development, the importance of which is likely to increase with the progress of aviation.

The following table compares the cost of transport of gold by air and by sea and/or rail between London and a number of continental centres :

(Rates per lb. gross weight.)

	By air. 100 lbs.		By sea and/or rail (passenger service). 100 lbs.		200 lbs.	
	s.	d.	s.	d.	s.	d.
Amsterdam		8		10		9
Basle	1	3	2	0	1	9
Belgrade	2	4	5	0	4	4
Berlin	1	5	2	1	1	10
Berne	1	6	2	6	2	2
Brussels		6	1	4	1	0
Bucharest	2	9	4	6	3	9
Budapest	2	3	3	6	3	3
Copenhagen	1	7	3	3	3	0
Madrid	15	0	19	0	17	6
Marseilles	1	6	2	1	1	9
Paris		6	1	6	1	3
Prague	1	6	2	6	2	2
Rome	16	0	17	6	17	0
Vienna	2	0	3	0	2	9
Warsaw	2	9	4	6	3	6

To several of the above centres no direct air transport of gold can be undertaken, and the rates indicated for transport by air include partial transport per rail. For the purpose of comparison, the fastest combined sea and rail journey has been taken. There are slower services which cost less than the amount indicated, but involve additional loss of interest. As above comparison shows,

the cost of transport by sea and rail declines considerably if the quantity dispatched at a time increases. This is in part due to the minimum expenses incurred at the various intermediate stations on the sea and rail journey, which do not increase proportionately with the quantity involved.

The time factor has always played a considerable rôle in gold shipments. It is at present much more important than it was before the war, because rates of interest are now substantially higher. From this point of view the adoption of the aeroplane as a means of carrying gold is particularly significant. A difference of a few hours may result in the saving of one day's interest under certain circumstances. For example, as gold sent by air to Amsterdam arrives there at noon, while gold sent by boat arrives in the afternoon only, in the former case it can be sold to the Netherlands Bank on the same day, in the latter it has to wait until the next day.

The following figures give the calculation of the gold export point to Holland, based on the cost of the dispatch by air of 1000 kilos of fine gold to Amsterdam :

	£	*s.*	*d.*
32,150·725 ounces of fine gold @ 84*s.* 11½*d.*	136,573	12	0
Carriage by air 2400 lbs. @ 8*d.*	80	0	0
Insurance 9*d.* per £100 on £113,500	53	16	3
Packing 20 boxes @ 5*s.*	5	0	0
Interest 2 days 5 per cent. on £136,573	37	8	4
Interest 14 days 5 per cent. on £13,657	26	3	10
	136,776	0	5

1000 kilos @ fls. 1647½	Fls. 1,647,500
80 assays @ fls. 3.50	280
Net proceeds .	1,647,220

£1 = fls. 12.0432

The possibility of transport of gold by air has considerably affected the gold export point to Germany. As is well known, the Reichsbank accepts gold, when convenient, at its Hamburg, Bremen and Cologne branches. For some time, transport by air to Cologne was cheaper than transport by boat to Bremen or Hamburg, and there was also the saving of one day's interest, so that, weather permitting, preference was usually given to Cologne. The shipping companies running boats from London to Bremen and Hamburg have lowered, however, their freight rates to a sufficient extent to compete with the air lines. Where the alternative to air transport is transport by sea and rail, the former is at an advantage in competition, as railway companies are not so quick in adjusting their tariffs as shipping companies.

In order to indicate the significance of the Reichsbank's willingness to accept gold at its Cologne branch instead of insisting upon delivery in Berlin, we compare below the figures concerning transport to Berlin and Cologne :

	Berlin.			Cologne.		
	£	s.	d.	£	s.	d.
32,150.725 fine oz. @ 84s. 11½d.	136,573	12	0	136,573	12	0
Transport by air	150	0	0	110	0	0
Insurance on £143,500	71	15	0	71	15	0
Interest on £136,573	56	2	6	37	8	4
80 assays	18	0	0	18	0	0
Packing, 20 boxes	5	0	0	5	0	0
	136,874	9	6	136,815	15	4

100 kilos of fine gold @ 2790 reichsmarks . . . RM. 2,790,000

If there is no direct aeroplane service between two centres the transport may miss its connection, which means an additional day. For this reason, interest can only be saved, as a rule, where there is a direct aeroplane service. Moreover, transport by air is exposed to the caprices of the weather, to a much greater extent than shipping, which circumstance reduces the possibility of saving interest by air transport. An unexpected storm, owing to which the flight has to be delayed or cancelled, may transform the anticipated saving of interest into a loss.

Contrary to what appears to be obvious at first sight, insurance rates are not higher for transport by air than for transport by boat. Under certain circumstances they are even somewhat lower. In the early days of the transport of gold by air, insurance companies charged higher rates, in the absence of any statistical records. Subsequently, however, they realised that the risk is not so great as they believed. Especially the risk of a partial loss by pilferage is much smaller than for transport by boat and train. On the other hand, the maximum limit of the amount insured on any particular aeroplane or on any particular day is comparatively low, which tends to restrict the transport of gold by air.

A further progress of aviation will accentuate its advantages and reduce its disadvantages as a means of gold transport. Air freights are likely to be substantially cheaper in the course of time, and the increasing safety of air routes will reduce insurance rates. Quicker and more frequent air service, as well as the establishment of direct routes for long distances, will result in a considerable reduction of interest charges. It is only a question of time before regular air services are run, not only between

London and the more distant continental centres, but even from London to New York and to India, and from the gold-producing countries to London. The reduction of freight rates may be much more pronounced for such long distances than for the existing short routes. Saving of interest will be very considerable. Assuming that, by the time regular air transport is established between London and New York, the rate of interest will be about 4 per cent., the saving of, say, four days' interest would represent about £186 on a transport of 100,000 fine ounces. Insurance rates would probably be very high at the beginning, but the improvement of the air service would bring them down to a normal level. The shipping companies, in order to maintain their rôle in gold transport, would have to consent to substantial reductions in the freight rate.

Thus, the tendency points obviously towards a quicker, easier and cheaper flow of gold from one market to another. The margin between gold points will gradually narrow down, so that exchange movements will be confined to even narrower limits than in pre-war days. There is, on the other hand, no reason to expect a material diminution of the influences, seasonal and otherwise, which govern the exchanges under normal conditions. Consequently, exchange rates will tend to go more often beyond their gold points than before the war, and, other things remaining the same, gold arbitrage will have a busier time than before the war. This will be inconvenient for the central banks, as their gold reserves will be exposed to undesirable fluctuations. Undoubtedly, as gold import point and export point will be closer to each other, the range of the fluctuation of exchanges between countries on a gold basis will be even narrower than in pre-war days. The price of the greater stability of the exchanges will be, however, an increased instability of the money market, as a result of the wider fluctuation of gold reserves.

PAUL EINZIG

OFFICIAL PAPERS

THE BALANCE OF TRADE OF THE UNITED KINGDOM IN 1924, 1925, 1926

The Board of Trade Journal for January 27, 1927, contains an article revising and bringing up to date their previous calculations as to the Trade Balance. In view of the exceptional importance of these estimates at the present time and the con-

troversies surrounding them, we reprint the article *in extenso* below:

"Some tentative estimates" of the balance of international transactions of the United Kingdom, conventionally known as "the balance of trade," were presented in *The Board of Trade Journal* of 21st January, 1926. These estimates did not extend to capital movements, and, so far as they related to transactions of the nature of annual revenue, opportunity has been taken in the course of the past year to review in detail the principles on which the various calculations have been made. In this series of annual articles emphasis has always been laid on the elements of uncertainty that attend all calculations and estimates of this character, and this emphasis is repeated in the present article. Opportunity has also been taken to revise certain of the figures for 1924 and 1925 in the light of information which was not available when the original estimates were made. Estimates of the "balance of trade" in 1926, similarly tentative and subject to revision, are now put forward.

THE TRADE BALANCE

The basic figures for the last three years are:

Movement.	1924.	1925.	1926.
	In Million £'s.		
IMPORTS:—			
Merchandise	1277·4	1320·7	1242·9
Bullion and Specie	49·7	52·1	49·8
Total	1327·1	1372·8	1292·7
EXPORTS:—			
Merchandise	940·9	927·4	777·5
Bullion and Specie	61·8	61·8	38·1
Total	1002·7	989·2	815·6
Surplus of Imports over Exports	324·4	383·6	477·1

The surplus of imports over exports of merchandise increased from £336·5 millions in 1924 to £393·3 millions in 1925 and to £465·4 millions in 1926, but, whereas the exports of bullion and specie were in excess of imports by £12·1 millions in 1924 and by £9·7 millions in 1925, imports were in excess of exports in 1926 by £11·7 millions. It is a sufficiently remarkable thing that in a year so unfavourable to trade as 1926, when the surplus of

imports over exports of merchandise rose by £72·1 millions as compared with 1925, there was a reversal of the practice of exporting gold which added £21·4 millions to the aggregate surplus of imports. In this connection it may be noted that gold coin and bullion in the Bank of England on 29th December, 1926, amounted to £151,119,000, an increase of £6,562,000 on the year, so that it would appear that about £5 millions of the excess imports of gold in 1926 were absorbed by the arts, or by the ear-marking of gold at the Bank of England for account of other countries.

Government Transactions

Payments and receipts on account of the overseas activities of the War Office, Admiralty, and other public departments, payments and receipts in respect of the interest and principal of loans, Indian home charges (except payments on account of debt and interest on railway capital, which are included with income from overseas investments), and some other items make up the total of this category. All the details cannot be identified with precision, but, so far as information is available, it appears that there was an excess of payments over receipts amounting to £25 millions (revised) in 1924 and to £11 millions (revised) in 1925. In 1926 there would appear to be a small excess of receipts over payments, estimated partly on the expectation of reduced naval and military expenditure overseas, partly on account of increased receipts in respect of loans, but, as the exact amount is both small and uncertain, receipts and payments are, for the purposes of the present calculation, taken as balancing.

Net National Shipping Income

Net national income from shipping services in 1925, *i.e.* gross earnings less disbursements in overseas ports, was estimated at £115 millions, and, in addition, credit was taken for about £9 millions in respect of disbursements by foreign ships in British ports. During the first four months of 1926 freight rates, as calculated by the Chamber of Shipping, were less in each month than in the corresponding month of 1925, the average reduction being about 16 per cent. When the coal stoppage came British shipping was thoroughly disorganised through the cessation of our outward coal trade. Rates rose rapidly till November 1926, sinking again in December. The index-numbers compounded from those increased rates are, however, not strictly comparable

with those for the corresponding months of 1925 on account of the dislocation of trade routes. The high rates were mainly earned by a one-way trade, British ships going out in ballast to bring back coal. There was also, necessarily, a very large increase in disbursements in overseas ports, particularly for bunkers, and the congestion in American coal ports added to the expense. The benefit of the coal-carrying business accrued mainly to the profit of "tramps," liners having to bear the burden of dearer bunkers, and only gaining on the North American route by the increased rates on grain parcels. A dispute as to conditions of freightage prevented most of the steamers on the Australian route from profiting by the higher rates which obtained in the late autumn. The net effect of the trading of the year was that the entrances of British ships with cargoes in 1926 exceeded the entrances in 1925 by about five and a half million net register tons, and that the clearances of British ships with cargoes in 1926 were less than the clearances in 1925 by about seven and a half million net register tons. In both cases it must be remembered that these figures do not indicate whether the vessels were fully loaded or not. On the whole, it would be hazardous to estimate that the gross earnings of British shipping, less disbursements in overseas ports, were any greater than they were in 1925, and they may conceivably have been somewhat less. Further, the national receipts in respect of disbursements by foreign ships in British ports in 1926 were reduced, compared with 1925, partly on account of the lower price of coal in the spring and partly on account of the cessation of bunkering facilities for seven months of the year. Taking everything into consideration, it is proposed to take the net national income from shipping in 1926, together with disbursements of foreign ships in British ports in that year, at £120 millions, but it would be wise to regard the actual figure as being somewhere between limits five per cent. below and five per cent. above that sum.

Net Income from Overseas Investments

Net income from overseas investments consists of the surplus of income from such investments (whether in company form or of a personal nature) over the amount payable to other countries in respect of income from their investments and balances in the United Kingdom. Careful consideration of all the available data has shown no sound reason for increasing materially the estimates

of £220 millions for 1924 and £250 millions for 1925. Perhaps three-fourths of these estimates can be justified from information in the hands of the Inland Revenue authorities. It should also be observed that in respect of the same transactions the Board of Trade figures include all remittances from abroad, whereas the Inland Revenue statistics take into account only "profits," *i.e.* remittances less home expenses. There is a great lack of precise data regarding the remaining fourth, and consequently the accuracy of the estimate must be clouded with much uncertainty. For 1926 it is proposed to take £270 millions, principally on account of increased revenue in that year from oil companies and from tea and rubber plantations. It has been suggested in certain quarters that the net income from overseas investment has been seriously under-estimated, but the critics have not ventured to give any figures more nearly approaching their idea of the amount, and it is not clear that they have always distinguished between the gross and the net national income from this source. Until a definite new figure is put forward, supported by substantial evidence, it appears better to continue to make estimates on a conservative basis.

Other Receipts

"Commissions," or payments for services rendered in this country for the benefit of persons, etc., resident abroad, include acceptance credits commissions, discount on foreign bills, bank interest (*i.e.* short interest), commissions, etc., on new issues paid by overseas borrowers, merchanting commissions on overseas produce, brokers' commissions, insurance remittances from abroad, earnings on exchange transactions. All these heads are of such a nature as to make precise estimates of our receipts extremely difficult, and the amounts paid by us to foreigners for similar services are even more indeterminate. Nevertheless, after taking further advice, it seems probable that previous estimates may have been too low and that £60 millions is a more probable minimum. Miscellaneous receipts in respect of the sale and purchase of secondhand ships to and from other countries, emigrants' remittances, the savings of migrants returning to this country, tourists' expenditure, etc., may still be allowed to stand, on balance, at £15 millions.

Summary

We can now sum up in the following table, all the entries in which, except those relating to "Excess of Imports of Mer-

chandise and Bullion," are, in a greater or less degree, based on estimates:

Balances of Income and Expenditure in the Transactions (other than lending and repayment of capital) between the United Kingdom and All Other Countries.

Particulars.	1924.	1925.	1926.
	In Million £'s.		
Excess of Imports of Merchandise and Bullion	324	384	477
Estimated Excess of Government Payments made Overseas [1]	25	11	- -
Total	349	395	477
Estimated Net National Shipping Income [2]	140	124	120
Estimated Net Income from Overseas Investments	220	250	270
Estimated Receipts from Short Interest and Commissions	60	60	60
Estimated Receipts from Other Services	15	15	15
Total	435	449	465
Estimated Total Credit (+) or Debit (−) Balance on items specified above	+ 86	+ 54	− 12

[1] These include some items on loan accounts.
[2] Including disbursements of foreign ships in British ports.

Except in so far as payments and receipts in respect of the principal of international loans are included in the calculation of the "estimated excess of Government payments overseas," the above table refers to revenue transactions as opposed to capital transactions. It also represents the income earned and expenditure incurred in the years specified, and some part of these transactions were not settled by the payments made within those years. If it be correct to assume that the bulk of our overseas trade is conducted on the basis of 60 days' credit, then the balances in respect of actual receipts and payments in the years specified would be + 114, + 60, and − 5 instead of the figures shown. It is not suggested that the latter figures are more accurate than those in the table, but they are introduced for the purpose of emphasising the fact that credit outstanding is an essential element in every trade balance. Every manufacturer or merchant in drawing up his balance-sheet includes with confidence debts due to him, *i.e.* credit which he has extended to his customers, and only by way of precaution does he make an allowance for bad debts. Moreover, if his debts exceed the

amounts due to him he does not, therefore, consider himself in a state of bankruptcy, though a continuing adverse balance might bring him there. The artificial divisions of time do not apply to trade, which continues always in a moving equilibrium.

The table shows that on balance we are £66 millions to the bad compared with 1925. An extension of credits for imports, so as to cover the imports of an additional 19 days, would, without other changes, be sufficient to meet this difference. After seven months of coal stoppage it is satisfactory to find that things are no worse.

Credit balances remaining on international revenue transactions are available for new investment, and it has been customary to regard them as the chief source of funds for purchase of new issues for overseas investment. New overseas issues on the London market amounted to £134 millions in 1924, to £88 millions in 1925, and to £112 millions in 1926, according to the Monthly Review of the Midland Bank for December 1926-January 1927, and to these sums should be added the amounts invested abroad in personal ventures in private businesses. These sums are in excess of the credit balances of income available in 1924 and 1925, but such balances are not the only sources from which new investments overseas can be made. International capital transactions are continuously being made, as well as revenue transactions. Foreigners are constantly buying British and other securities in London, sometimes to considerable amounts, and London is always buying foreign and home securities from abroad, and on balance there may be funds available for new investment. Short-term foreign money has been on occasion largely placed in London, and with the recovery of London as an international financial centre it is probable that foreign balances are larger than they were some years ago, but, although while they were growing they helped us to finance overseas loans, obviously this effect is not recurrent. A third source of funds for overseas investment is that of sinking funds on overseas loans, which certainly amount to a considerable sum. On account of these capital transactions, as well as for reasons which have been expounded at length in previous annual reviews, there is no reason for expecting a close correspondence between the total of new overseas issues offered on the London market in any year and the available balances of national income, and, accordingly, the excess of such issues over balances is no evidence that the latter are seriously under-estimated.

Taking into account the uncertain character of many of the

items entering into the annual balances, it will be safer to substitute for the precise figures in the table a range of variation, and to say that the credit balance of national income from international transactions lay between £75 millions and £100 millions in 1924 and between £40 millions and £80 millions in 1925, while for 1926 there was probably a small debit balance. It may be added that for 1923 the surplus of income over expenditure in international transactions of a revenue character was estimated at £153 millions, which would be raised to £183 millions if "Commissions, etc." in that year were taken at the same figure as in the years 1924 to 1926. Allowing for defects in the estimates, we may say that the surplus of revenue over expenditure in 1923 lay between £150 millions and £200 millions. In that year the total amount of new overseas issues offered on the London market was £136 millions.

Co-operative Coal Selling

Reports of the Departmental Committee on Co-operative Selling in the Coal-Mining Industry. (Cmd. 2770. 1*s*.)

The reference to this Committee was "to inquire into and report upon the desirability and practicability of developing co-operative selling in the coal-mining industry, and to make recommendations." The Samuel Commission had suggested such a measure "in order to narrow distributors' margins without exposing the consumer to exploitation by monopolies." It held that "the present system of selling appears to carry competition to excess"; but did not think that co-operative associations were "likely to become so comprehensive as to stop any competition within the industry," or to prejudice the consumer by establishing a monopoly. It seems to have had in view the lessening of certain costs, and the avoidance of extremes of weak selling, especially in the export trade.

In fact, however, the Committee divided into two groups, divided fundamentally on the issue of monopolistic policy. And their arguments do not meet. The Majority admit that "normal competition in selling may be the greatest stimulus to efficiency," but offer no criterion as to the definition of this normal, and more usually refer to competition by the literary epithets of "excessive" or "unhealthy." They point out ordinary things about fluctuation and the recurrence of depression, but give no real consideration to the question of degree, and the reader is left in doubt on the issue how much competitive risk must be

taken as the offset to the right to take profit. Further, they are carried by their argument to proposals difficult to separate after all from a monopolist control. As might have been foreseen, they recommend local and district associations; but they are prepared to compel membership of the latter if a sufficient majority is in favour; and although the separateness of these district associations is the safeguard against monopoly, as they state, they proceed to advise their co-ordination by working agreements as " a desirable development." They waver between admiration and distrust of the German compulsory Cartel; and they hold that " there are worse evils than a monopoly." They are, in fact, driven, where this argument is always finally driven, into an appeal to the motives with which economic power will be used; " monopolistic combines generally, in this country, have shown sufficient commercial vision to maintain a reasonable balance between the selling prices which it is in their power to charge and the selling prices which they actually do charge. There is surely no reason to doubt that the same prudence would be shown by the coal-owners themselves." Those who recall the conclusions of the Committee on Trusts of 1919, and of the numerous Committees under the Profiteering Act, will scarcely take this as at present a sufficient apologetic. It has been necessary, in Germany, the United States, and elsewhere, to provide for a development of the law, parallel with that of industry; but the Majority, while they think that the law as to restraint of trade should be clarified, do not appear to mean more than that marketing organisations should have a defined status. This impasse, which brings in the Minority with an alarm against monopoly, is the position likely to be reached by piecemeal inquiries into the problem of combination.

The Minority simply assume that the whole objective of such arrangements is to make the consumer pay higher prices, and argue that our manufacturing industries will be injured, and that these considerations are specially important to a country whose food supply depends on export. They distrust, as too ambitious and impracticable, an international arrangement. It is of interest to observe the points on which direct issue is joined. As regards stabilisation, no denial is given to the statement of the Majority, that German coal prices have, since the Cartel, fluctuated less than British; and none is possible, because this is true. For the decade preceding the Cartel, the average actual fluctuation was in Britain slightly less than in Germany, 6·6 shillings against 7·1 marks; while for the next twenty years,

L 2

the British figure is 8·5 shillings, the German 3·7 marks; as nearly as I can estimate, the error for qualities being assumed constant. On the other hand, the German prices are higher, except in the famous year 1900, when, by forcing long contracts, the Cartel stabilised *at the top of the boom.* The Minority do not make this point, but argue for "flexibility," plus long contracts, as against a definite stability policy, which is "quite secondary." This logomachy leads nowhere, because the administration of a policy of stability (which does not mean uniformity) is not discussed in relation to price level and time of its special application. Stability is not any fixing of prices, but the considered adjustment of price changes.

On the other hand, the Majority do not meet a number of statements tabulated by the Minority; that post-war coal prices were above the general level of commodity prices; that export prices were, relative to 1909-13, higher than those of our chief competitors; that over a long period, wages were higher and profits lower in coal than in industry generally, and that capital had not failed to be available; that the progress of the industry was more than satisfactory, compared with the growth of population. The point here is surely that, when a great industry has reached a crisis, the history of how it became great is not a reply to proposals for further organisation in view of changed conditions.

Co-operative selling, which was the reference to the Committee, is possible without a price or output Cartel; and, if such notable cases as the Danish and other agricultural organisations had been considered, the Committee might have agreed, at any rate for a start, on something which would not at once have adumbrated any alarming developments. The further organisation might then have worked itself out.

D. H. MACGREGOR

OTHER OFFICIAL PAPERS

Ministry of Labour: Eighteenth Abstract of Labour Statistics of the United Kingdom. (Cmd. 2740. 4s.)

THIS Abstract makes a welcome reappearance after an interval of eleven years. There are some changes in the form and scope of the Tables, some old Tables are discontinued, and some new ones added. The Statistics are grouped under the main heads of:—Employment, Unemployment, and Unemploy-

ment Insurance (with valuable tables of distribution of employment by industries, and its changes since 1881); Wages and Hours of Labour; Profit-sharing and Co-partnership; Wholesale and Retail Prices, and Cost of Living; Strikes and Lock-outs; Accidents, Diseases and Compensation; Associations of Employers and Employees; Co-operation and Friendly Societies; Health Insurance, Pensions, Poor-Relief, and Migration.

Public Social Services; Total Expenditure under certain Acts of Parliament. (H.C. 135 of 1926. 3*d.*)

THERE is shown a total public expenditure on the "social services" of 338 millions for 1925, against about 23 millions in 1891, and about 63 millions in 1911. The Preface points out that comparisons are subject to the consideration that in some services, notably Health, recorded public expenditure has taken the place of unrecorded private expenditure.

Companies; Thirty-fifth General Annual Report of the Board of Trade. (S.O. 1*s.*).

SHOWING for ten years the number of Companies registered, total and average nominal capital, and distribution by amount of nominal Share Capital.

International Year-book of Agricultural Statistics for 1925–6. (Rome: Institut International d'Agriculture. 90 lire.)

THERE is given for *every country* a summary table of the distribution of its agricultural land, its production, and its live-stock. *For each crop* there are tables of the area, production and yield in the several countries, with tables of recapitulation by continents. These, and the live-stock tables, are related to the pre-war figures. Imports and exports for each product are analysed by countries, again with reference to 1909–13, and totalised by continents. There are further tables of prices, freights and production of fertilisers. All these data are otherwise grouped and elucidated in the Introduction. This standard work of reference causes agriculture to be second to no industry in the compilation of international statistics.

Ministry of Labour Gazette, January 1927. (Vol. XXXV. No. 1. 6*d.*)

CONTAINS as a special feature a survey of Employment, Wages, Cost of Living, and Trade Disputes during 1926.

Ministry of Labour. *Report on an Investigation into the Employment and Insurance History of a Sample of Persons insured against Unemployment in Great Britain.* (Stationery Office. 3*s.* 6*d.*)

THE sample in this Inquiry was about 80,000 cases out of about 12 millions, and of this sample 58,000 were the effective cases which were analysed in detail. The investigation refers to the whole body of insured persons, not merely to the unemployed. Among the chief results are: that (1) 52 per cent. of the insured have drawn benefit at some time or other, with wide variations for the several trades, so that nearly one-half have never come on the fund; (2) the number of weekly contributions paid is for males nearly double, and for females more than double, the number of days' benefit drawn; (3) the results do not show that age is a factor of predominant importance in the retention of employment, and *over a given period* the age distribution of claimants to benefit does not differ much from that of all insured persons, though special circumstances alter this result *at any given date*; (4) in the conditions about the year 1925, the waiting days formed under 8 per cent. of the total days of unemployment. A tabulation is also given to show the extent of transfer between one insured industry and another. This Report is of the utmost interest for the study of industrial conditions, and a valuable addition to social knowledge.

Tenth Annual Report of the National Savings Committee. (S.O. 1926. 2*d.*)

PROGRESS is reported in all the parts of the organisation through which the Committee works.

Reparations Commission. *Report* (*No. XV.*) *of the Actuary for Reparations Payments, Nov.* 30, 1926. (S.O. 3*s.*)

Reports (No. XVa.) of Commissioners for German Railways, of the Reichsbank, of Controlled Revenues, of the Trustee for German Industrial Debentures. (3*s.*)

Ministry of Health. *West Ham Union: Report of the Board of Guardians.* (Cmd. 2786. 6*d.*)

THE administration of the Special Board in the third quarter of 1926 reduced the numbers relieved by 25 per cent., and the amount of relief by 45 per cent.

Report by the Government Actuary on the Second Valuation of the Accounts of Approved Societies. (Cmd. 2785. 2*s.* 6*d.*)

British Engineers Association. *Monograph on the Economic Conditions of the British Engineering Industry, prepared for the Preparatory Committee of the Economic Conference of the League of Nations.* (32 Victoria St., S.W. 5*s.*)

ASSOCIATION OF TEACHERS OF ECONOMICS

THE fourth annual Conference of Teachers of Economics in British Universities was held in London from January 7th to 10th, at the Household and Social Science Dept., King's College for Women. About twenty members of the Association were accommodated in Queen Mary's Hostel, and from fifteen to twenty others were present at the various meetings. The discussions, of which a brief note follows, were, as on previous occasions, quite informal in character.

1. Friday night. Professor Carr-Saunders in the chair. Mr. A. W. Ashby on "The Study and Teaching of Agricultural Economics." The paper was given in response to an invitation extended to Mr. Ashby by those present a year ago at Birmingham. Mr. Ashby described in some detail the origin and aims of the departments of Agricultural Economics which have recently been instituted in many of our Universities, and urged that a closer co-ordination of their work with that of the theoretical economist is desirable. He gave instances of the researches which agricultural economists are seeking to carry out, and of ways in which, in the light of their conclusions, they can bring criticism to bear upon the generalisations of the textbooks.

2. Saturday morning. Professor Clay in the chair. Professor Bowley and Dr. P. S. Florence on "The Place of Statistics in Economic Teaching." An attempt to illuminate some of those dark recesses which many who are concerned with elementary teaching are conscious of having long neglected. The discussion showed that a strong case can be made out for a more "realistic" presentation of social facts than is usually offered to beginners; and some practical suggestions were put forward as to how this can best be done.

3. Saturday evening. Professor J. H. Jones in the chair. Mr. W. T. Layton on "The League of Nations' Economic Conference." Mr. Layton, an active member of its Preparatory Committee, sketched in outline the Conference agenda, and contrived incidentally to say something informative on such diverse and complicated problems as tariffs, immigration, currency and kartels. His address evoked an animated discussion. Mr. Layton emphasised how important it is that the public at large should have adequate opportunities of discussing the work of the Conference, and adequate enlightenment as to its scope and aims. His address will doubtless have accomplished something towards the promotion of these objects.

4. Sunday morning. Mr. F. Lavington in the chair. Mr. H. Phillips and Mr. J. Morgan Rees on "The Present Position of Trade Unions." Another topical subject, with which, said Mr. Phillips, all those participating in "extra-mural" activities must necessarily concern themselves. He presented the problems of trade unionism in their historical setting, and urged that the significance of proposed changes in the law could only be appreciated in the light of the unions' political and legal history. Mr. Morgan Rees contributed a sympathetic presentation of the attitude of trade unionists in S. Wales to the questions now at issue. The general strike, and the possibility of legislating against its repetition, were among the many topics touched upon in the subsequent discussion.

5. Sunday evening. Miss Grier in the chair. Mr. G. F. Shove on "Population and the Law of Diminishing Returns." This "paper" was something of a *tour de force*, as Mr. Shove, having neither blackboard nor diagrams to assist him in a somewhat involved argument, contrived to give the impression that he was making use of these adjuncts. His thesis defies compression, but it is to be hoped that we shall, in due course, see the whole of it in print. As an experiment in a "theoretical" discussion (which the Committee embarked on with some misgiving) this was a complete success.

Business Meeting.—The following Committee was elected for 1927–8 : Sir William Beveridge (London), Miss M. Buer (Reading), Professor Clay (Manchester), Dr. P. S. Florence (Cambridge), Miss L. Grier (Oxford), Mr. Hubert Phillips, Professor J. F. Rees (Birmingham). The new members are Miss Buer and Miss Grier. Mr. Phillips was re-elected as Hon. Secretary and Treasurer, and, at his suggestion, an Hon. Auditor was appointed in the person of Mr. P. B. Whale.

The arrangements for the accommodation of the Conference, for which the Association has to thank Miss Reynard and the authorities of King's College for Women, won the admiration of all; and it was unanimously resolved to hold next year's Conference (January 6–10, 1928) under the same auspices. It is hoped that an even larger number will take advantage, on that occasion, of the excellent facilities which Queen Mary's Hostel offers.

H. P.

British Association : Inquiry on Inheritance

As a result of the discussion raised by Sir Josiah Stamp's Presidential Address last year, a Committee was appointed by Section F of the British Association with a view to exploring the statistical aspects of Inheritance, so as to obtain a clue to its importance as a cause of inequality of wealth.

It appears to the Committee that an important source of information may be found in direct personal knowledge of instances of bequest. They therefore seek the assistance of readers of the Journal, who are requested to give the quite anonymous information asked for on the Form below. It will be sufficient to reply briefly under the number of each clause of the Form; *e.g.* "No. 3. Not more than £10,000." Replies should refer only to estates of £5000 or over.

The signature of the sender should be so placed that it can be easily detached and destroyed.

Replies should be sent to the Recorder of Section F, Mr. R. B. Forrester, London School of Economics, Houghton Street, W.C. 2.

Form

1. I had direct knowledge of a person who died in the year . . . , at the age of . . . , and whose whole estate was valued at

2. The income of the deceased was derived mainly from: investment, professional service, industry, commerce, agriculture, real estate. (Strike out what does not apply.)

3. The amount received by the deceased during his lifetime by way of inheritance or bequest was, to my knowledge, not more/less than £ . . . .

4. The amount alienated by the deceased during his lifetime, by way of gifts, settlements, etc., was to my knowledge not more/less than £ . . . .

5. The disposal of deceased's estate by his will was as follows. (If possible, state percentages going eventually to chief legatees A, B, C, or to other purposes.)

6. Give any supplementary information which seems important.

Current Topics

The following have been elected to membership of the Royal Economic Society:—

Allen, Miss R. E.
Andrew, E. J. L.
Ashhurst, A.
Avadio, A. J.
Ayyar, V. S. N.
Baker, W. J.
Banerjea, M. N.
Barber, D.
Barrow, A. F. L.
Betts, L. G.
Bhalla, P. D.
Blackie, D.
Bonn, Prof. M. J.
Boyes, K. L.
Braithwaite, Mrs. D. C.
Brunyate, Sir J. B.
Buchanan, Capt. J. N., D.S.O., M.C.
Budworth, W.
Bunt, A. P.
Buyers, J. A.
Cadbury, J.
Campbell, R. M.
Carl, W. W. J.
Carmichael, A. H.
Carpenter, G.
Carr, G. H.
Cawood, F.
Chari, V. T. K.
Cipriani, A. B.
Clark, D. J.
Clarke, F. M.
Copelin, J. G.
Craine, W. R.
Daroowalla, N. A.
Donnan, W.
Dowdell, E. G.
Durai, S. A.
Edwards, A.
Ellis, R.
Eshborn, C.
Fernie, W. G. V.
Ficck, C. F.
Fogarty, J.
Fowler, F.
Fraser, W. H.
Friend, A. H.
Fussell, G. E.
Gash, Rev. I. J.
Glossop, W. H.
Gregory, W. C. E.
Haberler, Dr. G.
Hacker, M. G.
Harvey, J. R.
Hellberg, A. T.
Henry, C. J.
Herschell, D. R.
Hi, M. M.
Hicks, J. R.
Hiranandani, M. H.
Hirobe, K.
Hirsch, Dr. K.

Huffer, W. A.
Hunt, A. E.
Hunt, A. H.
Hunt, Miss W. M.
Hunter, A. S.
Jahina, S. J. S.
James, T. L.
Jones, Rev. H.
Jones, J. A. W.
Kinsman, Prof. D. O.
Kirkconnell, Prof. W.
Knight, P.
Knight, R.
Knox, Prof. F. A.
Kreps, T. J.
Ledger, C.
Lightman, H.
Lyle, W.
McKenzie, A. W.
Marks, G. N.
Marshall, L.
Martin, R. F. R.
Martin, W. H.
Mathur, D. D. S. B.
Mattioli, Dr. R.
Maung, E. K.
Meddings, F.
Mills, R. A.
Milnes, Mrs. Nora.
Mindel, A. S.
Mitra, Prof. S.
Monk, R. M. C.
Morgenstern, Dr. O.
Morton, W. J.
Mundy, Rev. R. S.
Naha, J. C.
Newbury, W. F.
Nisbet, J. W.
Nowell, R. M.
Ong, Ho Seng.
Orwin, J. M.
Page, J. K.
Palmer, A.
Panaitesco, P. N.
Parke, W. D.
Paterson, R. W.
Paymaster, D. R.
Pendrill, W. G.
Pillai, V. N.
Radford, A.
Raducanu, Prof. I.
Raeburn, H. D.
Ram, L-L. S.
Rao, B. G.
Ray, S. K. D.
Robson, A.
Row, S. V. B.
Roy, R. F.
Rubens, J. B.
Russell, J. W.
Saba, F. S.
Sarker, N.
Saxena, K. P.
Schumach, G. J. D.
Selbie, R. N.
Sen, Prof. K. N.
Sharp, A.
Shaw, R.
Shultz, W. J.
Simpson, F. A.
Singer, Prof. Dr. Kurt.
Smith, S. C.
Smith, W. T.
Southam, E. A.
Southgate, Capt. W. E.
Stapleton, P.
Steel, T. N.
Stephen, P. W.
Stewart, J. S.
Stott, N.
Summers-Higby, W. H. V.
Taher, M. E.
Tandau, L. D.
Tarbat, J. A.
Taylor, C. F.
Telfer, W.
Thomas, A. H.
Tonkin, A.
Townsend, S.
Tucker, L. A.
Tunstall, F. C.
Twigg, H. J.
Tyldesley, S.
Venkataraman, B. S.
Vowles, W. H. P.
Wallis, C. E.
Warden, Mrs. E. E.
Wearing, E.
White, G. L.
Whyte, J. M. F.
Wild, A. S.
Williams, H.
Williams, L. D.
Wilson, Miss E. G.
Wong, P. C.

The following have compounded for life membership:

Cadbury, John.
Canaganayagam, N. M.
Clogg, J. A. E.
Davies, J. S.
Dolling, H. W.
George, A. H.
Hirobe, Kenji.
Hirsch, Dr. K.

Hunt, A. H.
Hunt, Miss W. M.
James, T. L.
Latif, Khan Bahadur S. A.
Lees, G. T.
Mattioli, Dr. R.
Nowell, R. M.
Paterson, R. W.
Paz, E. P.
Ray, S. K. D.
Sraffa, Dr. P.
Venkataraman, B. S.
Whyte, J. M. F.

The following have been admitted to Library membership:

Barnett House, Oxford.
Lehigh University Library (compounded for fifteen years).
Vassar College Library, New York (compounded for fifteen years).
National Federation of Building Trades Operatives.
University of Oregon Library.
Library Southern Baptist Theological Seminary, Louisville.
Seminario de Economia y Finanzas, Buenos Aires.
The University of Texas.
Sydenham Library, Gujarat College, Ahmedabad.
Amalgamated Clothing Workers of America, New York.
Cincinnati University.
Pennsylvania State College.
State University of Montana.
South-western College, Tennessee.
American University Library, Washington.
Wellesley College Library, Massachusetts.
Leeds College of Commerce.
University of Cincinnati.
State University of Montana.

We record with regret the deaths of the following Fellows of the Society:

Bergson, J.	(elected 1921).
Gooding, W. P.	(,, 1924).
Knight, W. H.	(,, 1913).
Lea, J. W.	(,, 1913).

A COMMITTEE has been formed to raise some permanent memorial to the services rendered by the late Professor Lilian Knowles to Economic History and to the London School of Economics. It is felt that the most appropriate memorial would

be a Scholarship or Studentship connected with Economic History, but the actual form of the memorial would depend upon the sum raised. Contributions should be sent to the Secretary, London School of Economics, Houghton St., London, W.C. 2.

The Collected Papers of the late George Unwin, Professor of Economic History in the University of Manchester, will be published in the course of this year by the Royal Economic Society under the title of "Studies in Economic History," edited with an Introductory Memoir by Mr. R. H. Tawney. This book will be issued to members of the Society on special terms, as in previous cases.

The second issue (for 1927) of the Economic History Numbers of the *Economic Journal* will be published in April or May. Contributions intended for this issue should be sent to Mr. J. M. Keynes, King's College, Cambridge, before the end of March.

An interesting series of lectures has been recently delivered at the University of Chicago to commemorate the sesquicentennial of the publication of "The Wealth of Nations." The lectures will be published in book form by the University of Chicago Press. They include "Adam Smith—The Founder of a School" by Prof. J. H. Hollander, "A Genetic Interpretation of Adam Smith" by Prof. J. M. Clark, "Smith's Theory of Value and Distribution" by Prof. P. H. Douglas, and "Smith's Theory of Laissez Faire" by Prof. Jacob Viner.

Some additional copies of Nos. 9, 37–39, 41–43, 47, 50, 52, 81, 82, 89, 92, 95, 96, 98–100, 103, 105, 107–111, 142 (June, 1926), 143 (Sept., 1926) of the Economic Journal are required for the purpose of completing sets. The Secretary of the Royal Economic Society would be much obliged if any Fellows who can spare their copies of these issues would return them to the Assistant Secretary, Mr. S. J. Buttress, 6, Humberstone Road, Cambridge. A payment of 4*s.* will be made for each copy so returned. Apart from the above, will any Fellow who wishes to dispose of a set, or part of a set, of the *Economic Journal*, kindly communicate with Mr. Buttress?

THE eightieth anniversary of the birthday of Professor John Bates Clark was celebrated in New York on January 26th. In preparation for this event three projects had for some time been on foot. The first was a commemorative volume, in honour of Professor Clark, by former students and other admiring colleagues, under the general editorship of Professor J. H. Hollander of Johns Hopkins University, which will be published in the spring of 1927; opportunity being afforded to members of the Royal Economic Society to secure the volume at reduced rates. The second was a portrait of Professor Clark, painted by Ernest Ipsen, of which each subscriber will receive a reproduction in photogravure. The third was a complimentary dinner to be held at the University Club in New York on the evening of January 26th. Although it would have been easy to gather a very large company, it was decided to limit it to eighty. About half of these were colleagues and former presidents of the American Association; and the other half leading representatives of the business and financial world. Professor Edwin R. A. Seligman was in the Chair, and appreciative speeches were made by President Nicholas Murray Butler, by Professor Franklin H. Giddings, Professor Clark's oldest friend and colleague, and by Professor Frank A. Fetter, of Princeton University, a past president of the American Economic Association. Professor Clark made a fitting response. The proceedings of the dinner will shortly appear in print. It is interesting to note that the Chair at Columbia University which was originally filled by John Bates Clark is now occupied by his gifted son, John Maurice Clark.

The following is an extract from the letter sent to subscribers to Professor Clark's portrait :—

"Professor Clark's distinguished services to the science of economics are known to economists everywhere. His is one of those great names in the history of economic theory which can never be forgotten. In his *Philosophy of Wealth* he sketched a picture of economics so broad and so comprehensive that generations of workers will not exhaust the field opened up. In his *Distribution of Wealth* he cultivated a portion of that field so intensively, so fruitfully, and with such finish and polish and precision that it will for ever remain a model to teach men how great deductive thinking should be carried out.

"Professor Clark's writings have been the centre of more discussion than those of almost any of his contemporaries. He

has stimulated many other men to fruitful theoretical investigations. The controversies which have clustered about his writings have given a great impetus to the science.

" Professor Clark, by nature the least controversial of men, has himself taken a limited part in these controversies. When he has done so, as in his interchanges with the great Austrian, Böhm-Bawerk, he has set a standard for scientific controversy rarely equalled for courtesy, clarity, fair statement of an opponent's position, and fundamental grappling with the issues involved.

" Capable of the highest degree of scientific abstraction, and carrying through in his *Distribution of Wealth* the abstract method with a rigorousness rarely equalled in the history of the science, Professor Clark has never allowed himself to think in a vacuum. His use of abstractions has been a methodological device. His thinking upon economic problems has actually been carried through always on the basis of a rich knowledge of economic history and contemporary business facts. His interest in practical political and social policies has always been keen, and his sympathy for the toiling masses of mankind has been a basic inspiration of all his work. But he has appreciated, as few economists have appreciated, that the scientific analysis of cause and effect must not be vitiated by the pious wish that given causes might produce different effects, and that the scientist serves mankind best by disciplining his emotions and striving to see only the truth."

Professor Allyn A. Young of Harvard University has been appointed to the Chair of Political Economy in the University of London in succession to Professor Edwin Cannan. Miss A. E. Levett, M.A. (Oxford), has been appointed Reader in Economic History in the same University.

RECENT PERIODICALS AND NEW BOOKS

Economica (London School of Economics).

NOVEMBER, 1926. *Economic Welfare and Family Responsibility.* H. PEAT. *Philip Burlamachi: a Financier of the Thirty Years War.* A. V. JUDGES. *Amendment of the German Bank Act.* P. B. WHALE. *The Welsh Mint.* LL. JONES. *The Economic Condition of Italy.* C. GINI. *Jefferson, Hamilton, and American Democracy.* H. FINER.

The Economic History Review.

The Place of Economic History in University Studies. Sir W. J. ASHLEY. *The Rise and Development of Economic History.* N. S. B. GRAS. *The Merchant Adventurers in the Reign of Elizabeth.* G. UNWIN (the late). *The Financial Organisation of the Manor.* A. E. LEVETT. *The Small Landowner, 1780–1832, in the Light of the Land Tax Assessments.* E. DAVIES. *A Neglected Aspect of the Relations between Economic and Legal History.* W. S. HOLDSWORTH.

This is the first number of the *Journal of the Economic History Society*, to which reference was made on p. 322 of our last volume.

The Sociological Review.

JANUARY, 1927. *The Rise of the Danish Peasantry.* P. MANNICHE. *The Charting of Life.* P. GEDDES. *The Development of Sociology in the United States since* 1910. C. A. ELLWOOD.

The Economic Record (Melbourne).

NOVEMBER, 1926. *Federation and Finance.* L. F. GIBLIN. *Forecasting Economic Conditions in Australia.* H. BARKLEY. *The Australian National Dividend.* J. T. SUTCLIFFE. *The Industrial Revolution in the Far East.* J. B. CONDLIFFE. *The Immigration Problem in Australia.* G. L. WOOD. *The Efficiency of Australian Manufacturing.* F. C. BENHAM.

London and Cambridge Economic Service.

Special Memorandum.

No. 17A. *Numbers occupied in the Industries of England and Wales,* 1911 *and* 1921. A. L. BOWLEY. (P. S. King. 2*s.* 6*d.*) In view of the opinion of the Census authorities that no valid comparison can be made on an occupational basis, this Memorandum revises the results of Special Memorandum No. 17, whose *comparative* occupational Tables are withdrawn. The comparison now made is on an industrial basis. Summary statistics for Great Britain showed that the proportion of occupied (which does not mean employed) has changed very little, but here are noteworthy shiftings in age distribution. For England and Wales there were decreases in the numbers of males engaged in agriculture, cotton, clothing, building, dealing, and personal service; while the chief increases were in coal-mining, iron, steel and engineering, and

Government service. There was a marked fall in the numbers of females engaged in personal service and in dressmaking. In both sexes, sports and entertainments show an increase. The movement of agriculture down the list is notable; in the decade it has been passed by mining, textiles and transport, and is now fourth among industries, as distinct from services. Tables are also given to show changes in geographical distribution.

Quarterly Journal of Economics (Harvard).

NOVEMBER, 1926. *A Theory of Economic Oscillations.* H. L. MOORE. *The Nature and Fundamental Elements of Costs.* R. T. BYE. *The Doctrine of Comparative Cost.* E. S. MASON. *Theories of Business Fluctuations.* W. M. PERSONS.

Review of Economic Statistics (Harvard).

OCTOBER, 1926. Review of the Third Quarter of the Year. Car Loadings as an Index of Trade Volumes. A Monthly Index of Commodity Prices, 1890–1900. New York Bank Clearings and Stock Prices, 1866–1914. Monthly Production of Anthracite Coal.

DECEMBER, 1926. Statistical Record, 1925, with monthly data up to autumn of 1926. Including certain series of figures for selected foreign countries, converted into American units (Supplement I to Vol. VIII. Pp. 264).

American Economic Review.

DECEMBER, 1926. *Mechanism of Adjustment of International Trade Balances.* H. FEIS. *Agricultural Crazes.* A. H. COLE. *Burden of Tax Exemption of Government Bonds.* W. H. ROWE.

Journal of Political Economy (Chicago).

DECEMBER, 1926. *Rural Taxation in New Brunswick.* W. C. KEIRSTEAD. *Washington's Minimum-Wage Law.* A. JOY. *Expansion Possibilities of our Banking System.* J. V. HUFFMAN. *Teaching the Principles of Economics.* R. PETERSON.

Political Science Quarterly (New York).

DECEMBER, 1926. *Egyptian Cotton and the American Civil War.* E. M. EARLE.

Annals of the American Academy of Political and Social Science (Philadelphia).

NOVEMBER, 1926. *The Motion Picture in its Economic and Social Aspects.* I. The motion picture industry. II. The motion picture. III. The motion picture in industry. IV. The educational and social value of the motion pictures. V. Censorship or freedom.

JANUARY, 1927. *Federal and State Jurisdiction in American Life.* I. Federal and State sources of revenue. II. Child labour and the Federal Government. III. Some phases of State and Federal control. IV. Extension of Federal influence in education. V. Power development and its supervision. VI. Corporation control by the Federal Government.

Wheat Studies of Food Research Institute
(Stanford University, California).

DECEMBER, 1926. *The World Wheat Situation*, 1925–26: *A Review of the Crop Year.* Though the world wheat crop approached 4 billion bushels for the first time since 1915, prices averaged little below the high level of 1924–25, when crops were much smaller. Canada contributed well over half of the overseas exports of the world and sold this large crop at very good prices.

JANUARY, 1927. *Survey of the Wheat Situation, August to November,* 1926. The period under review was noteworthy for spectacular advance in ocean freight rates between mid-September and early November. The world wheat crop, exclusive of Russia, is the largest in recent years, except 1923. Crops in exporting areas are generally excellent; those in importing areas are moderately good.

Monthly Labour Review (U.S. Department of Labour).

SEPTEMBER, 1926. *Labour Productivity in Cotton Manufacturing.*

OCTOBER, 1926. *Wages and Hours in the British Steel Industry.* An independent inquiry by the Bureau of Labour Statistics, in view of the "scantiness" of official publications; based on information obtained from individual employers and union officials.

NOVEMBER, 1926. *Productivity in Meat Packing and Petroleum Refining.*

DECEMBER, 1926. *Prevalence of Five-day Week in American Industry.*

Bulletin of the Department of Labour (Washington).

NO. 415. Wholesale Prices, 1890–1925.

NO. 416. Hours and Earnings in Anthracite and Bituminous Coal-mining.

NO. 417. Decisions of Courts and Opinions Affecting Labour, 1925.

NO. 419. Trade Agreements, 1925.

NO. 420. Handbook of American Trade Unions.

NO. 428. Proceedings of the Industrial Accident Prevention Conference.

Revue d'Économic Politique (Paris).

SEPTEMBER–OCTOBER, 1926. *Obligations allemandes des chemins de fer contre bons de la Défense nationale.* K. SCHLESINGER. *La stabilité des monnaies européennes et le problème des transferts.* P. M. *M. Pantaleoni et la théorie économique.* G. PIRON. *Critique de l'économie pure.* G. H. BOUSQUET. *Les récentes théories monétaires anglaises.* J. P. LAZARD.

Journal des Économistes (Paris).

NOVEMBER, 1926. *Valorisation des créances privées et des emprunts publics en Allemagne.* YVES-GUYOT. *L'Assurance sociale sur la vie.* G. DE NOUVION. *La Coopération économique en Europe centrale.* E. HANTOS. *Les Pensions des veuves, orphelins et vieillards en Grand-Bretagne.* W. R. BARKER.

DECEMBER, 1926. *L'Endémie britannique.* YVES-GUYOT. *La Technique bancaire.* P. CAUBONE. *Les Ressources minières de l'Extrême-Orient.* C. K. LEITH. *Le Budget du travail et les Assurances sociales.* G. DE NOUVION.

JANUARY, 1927. *Le mark Allemand.* N. MONDET. *Les gains économiques de la Belgique et du Luxembourg d'après la Traité de Versailles.* E. LEMONON.

Le Musée Social (Paris).

DECEMBER, 1926. *Le régime juridique applicable aux Sociétés de Sociétés (Omniums).* M. CHEMINAIS. [A study of the holding company in France.]

Schmollers Jahrbuch (Munich and Leipzig).

50 Band, 6 Heft. *Die Reihe als Mittel zur Einschränkung der Konkurrenz.* W. STIEDA. *Die Bedeutung von Christian Jacob Kraus für die Geschichte der Volkswirtschaftslehre.* F. MILKOWSKI. *Landbau und landlicher Grundbesitz in Brasilien.* O. QUELLE. *Der Wille des Wählers und das Maas seiner Verwicklung.* A. TECKLENBURG. *Zwei tschechische Schriften über Währungsreform.* H. MÜLLER.

Jahrbuch für Nationalökonomie und Statistik (Jena).

125 Band, 4 Heft. *Die Ursachen der potenzierten Wirkung des vermehrten Geldumlaufs auf das Preisniveau.* W. EUCKEN. *Amerikanische Finanzierungsmethoden.* E. BÖHLER.

5 Heft. *Thesen über Wesen und Aufgabe der Theoretischen Sozialokonomik.* L. H. GECK. *Amerikanische Betriebssyteme und ihre Anwendbarkeit auf das deutsche Wirtschaftsleben.* H. VOGEL.

6 Heft. *Friedrich Freiherr von Wieser.* F. A. VON HAYEK.

Vierteljahrshefte zur Konjunkturforschung (Berlin).

1 Jahrgang, Heft 3. This number contains an exhaustive examination of the German Conjuncture in all its aspects—money, capital, income, production and employment—together with a special treatment of the main branches of German industry, with the conclusion that, in November 1926, the symptoms indicated the beginning of a rise. There is also a review of the foreign Conjuncture. Very complete statistical and diagrammatic tables are given.

1 Jahrgang, Ergänzungsheft 3. *Zur Lage der deutschen Landwirtschaft seit 1924.* Dr. H. PAETZMANN. An examination specially of conditions affecting rye, wheat, and potatoes. *Der Welthandel in wichtigen Nahrungsmitteln und Rohstoffen vor und nach dem Kriege.* (Official.) The turnover value of world trade in 1924 was 94 per cent. of 1913, reckoned at pre-war prices, the decline being mainly in respect of raw materials.

Weltwirtschaftliches Archiv (Jena).

25 Band, 1 Heft. *Strukturwandlungen der Weltwirtschaft.* B. HARMS. *Die Handelspolitischen Ideen der Nachkriegszeit.* F. EULENBERG. *Nordamerikas Wirtschaftsaufstieg und das paneuropäische Problem.*

E. H. VOGEL. *Die Vergeistung der Betriebe.* W. SOMBART. *Die Grundideen und Methoden der landwirtschaftlichen Geographie.* G. STUDENSKY. *Die moderne Entwicklung des Luftfahrtrechts.* O. SCHREIBER.

Archiv für Sozialwissenschaft und Sozialpolitik (Tübingen).

56 Band, 2 Heft. *Rationalisierung als finanzielles Problem.* M. J. BONN. *Der Zahlungsbilanzausgleich bei einseitigen Wertübertragungen.* M. PALYI. *Gesellschaft und Staat.* F. SANDER. *Die Phänomenologie des Geldwertbewusstseins.* F. WILKEN. *Genossenschaftswesen in Sowjetrussland.* V. TOTOMIANZ.

56 Band, 3 Heft. *Die langen Wellen der Konjunktur.* N. D. KONDRATIEFF. *Interventionismus.* L. MISES. *Die Geschichte als Funktion der Geldbewegung.* M. HERZWELD. *Richtungen und Entwicklungstendenzen in der Arbeitswissenschaft, II.* W. ELIASBERG. *Die britische Versicherung gegen Arbeitslosigkeit.* F. HEYER. *Die Aufbringung der Reparationsleistungen.* H. STAEHLE.

Zeitschrift für die gesamte Staatswissenschaft (Tübingen).

81 Band, 3 Heft. *Reichsverfassung und Rechtsprechung.* W. SIMONS. *Der isolierte Staat, 1826–1926.* E. SALIN. *Friedrich Freiherr von Wieser und sein Werk.* E. SCHAMS. *Die Discrepanz zwischen Leistung und Einkommen in modernen Wirtschaftsleben.* B. MOLL.

82 Band, 1 Heft. *Zur Reform der preussischen Selbstverwaltung.* H. VON EYNERN. *Wirtschaftsgeschichte und Wirtschaftstheorie.* T. MAYER. *Rodbertus und der agrarische Sozialkonservatismus.* H. SULTAN. *Zur Transferfrage.* W. SULZBACH.

Giornale degli Economisti (Milan).

OCTOBER, 1926. *Il problema del valore.* F. CARLI. *La disoccupazione in Italia.* G. GALLETTI.

NOVEMBER, 1926. *Per l'indipendenza economica dell' Italia.* G. MORTARA. *Il problema del valore.* F. CARLI.

DECEMBER, 1926. *Il ciclo produttivo in regime di moneta avariata.* A. CABIATI. *La valutazione della produzione lorda dell' agricoltura Lombarda,* 1910–14 e 1920–4. P. ALBERTARIO.

La Riforma Sociale (Turin).

NOVEMBER–DECEMBER, 1926. *Prignionieri oziosi.* V. PORRI. *Economia e legislazione nell' agricoltura.* F. LUZZATTO. *Consumi e prezzi nel confronto internazionale fra i salari reali.* G. GALLETTI.

Scientia (Milan).

DECEMBER, 1926. *The New Malthusianism in the Light of Actual World Problems of Population.* G. W. KNIBBS.

FEBRUARY, 1927. *Una teoria matematica sulla lotta per l'esistenza.* V. VOLTERRA.

Metron (Padua).

DECEMBER, 1926. *Le variazioni stagionali della natalità.* P. LUZZATTO FEGIZ. *Probleme der Bevölkerungs-Bewegung bei den Juden.* J. LESTSCHINSKY. *La richesse et le revenu de la péninsule Ibérique* J. VONDELLÓS.

Ekonomisk Tidskrift (Uppsala).

1926, No. 1. *Commodity Value and Money Value.* DAVID DAVIDSON. It is argued that the concept "real value" or "absolute value" is necessary in discussions of the variations in commodity values and money values. *Has the Present Tariff raised Land Values?* FRITZ BROCK. The Tariff Commission has tried to show that the tariff has changed the position of the farmers in Sweden for the worse, but yet raised land values. Brock thinks that this is impossible. If the tariff has been detrimental to the interests of the farmers, it must have lowered land values. *The Population Problem.* SVEN BRISMAN. An address read to the Economic Society, Stockholm (with discussion). Contemporary opinion has been revolutionised, as is most clearly seen in the discussion of the emigration problem. The question of the optimum size of population attracted little interest before the war, because wealth and welfare were rapidly rising through the effects of technical inventions, the utilisation of the "new" countries and decreasing mortality. There is likely to be a radical change in these three respects in the future. Population in North-western Europe will soon be static. In Sweden it will probably rise from 6 to 9 millions and then fall to something like 7 millions. Mortality will rise, when the composition of the population is changed, the older year groups becoming relatively more numerous. In the discussion Professor Knut Wicksell pointed out that the high mortality in France, apart from in the first year of life, was to be explained from this fact; the mortality in other year groups is not higher than in Sweden.

1926, Nos. 2–3. *The German Reparation Problem.* DAVID DAVIDSON. A review of the plans and proposals of the Dawes Committee. *The English Coal Crisis.* KARL HILDEBRAND. A review of the Coal Commission Report. *The Co-operative Programme.* ERIK LINDAHL. A review of a pamphlet by Anders Örne, Postmaster-General. The opinion that the co-operative societies can organise the production and effect the distribution of nine-tenths of the manufactured articles which are needed in a modern society is criticised. One of the greatest difficulties will be how to find sufficient capital. Another is the relation to trade unions. None of them has been very acutely felt so far, but both will become of greater importance when the production of consumers' co-operative societies has been further developed. *The Budget.* ERNST WIGFORSS. A paper read before the Economic Society in Stockholm by the then Minister of Finance in the last Socialist Government (with discussion by Carleson, Wicksell, Kobb, Wallenberg, Ekman and others). *The Government Proposals concerning Social Insurance against Accidents and Illness.* P. J. G. LAURIN. A paper read before the Economic Society in Stockholm.

1926, Nos. 4–5. *Sweden's Future Population.* S. D. WICKSELL. Various assumptions are made as to the future mortality, and on the basis of each of them the development of the population figures is computed. The methods used by G. U. Yule are criticised. Comparisons are made with Bowley's and Cramer's similar attempts. *The Elasticity of Gold Production.* G. SILVERSTOLPE. Will a rise in the value of gold cause a substantial increase in gold production? In his book *The Problem of Stabilisation* (Swedish)

Cassel has criticised the opinion put forth by Lehfeldt, that the answer to this question is in the affirmative. Silverstolpe defends Lehfeldt's view. It is true that gold production in the Transvaal has not been much reduced as a result of the decline in the value of gold since 1914. This, however, does not prove that a rise in the value of gold would have only a small effect on gold production. A report by the Transvaal Chamber of Mines gives figures which imply that if one could use ores containing 3 dwts. gold per ton or more the quantity of ores utilised would be *three* times greater than when the limit is 6 dwts. gold per ton.

Skandinaviska Kreditaktiebolaget (Stockholm).

JANUARY, 1927. *Gold Production and Gold Value.* G. CASSEL. Will the increasing demand for gold be met by increased output? It is doubtful if a further fall in the price level will stimulate production in South Africa; partly because the price level there is already below that of Europe and America, so that the adjustment of this disparity may cause Cape prices to rise; partly because of the problems of labour, capital and exhaustion of the mines. "In fifteen years the output will not cover even half the requirement." Prof. Lehfeldt's proposal for a gold trust will not meet the problem of *decreased* supply. Economic depression will therefore only be avoided by "systematically regulated scarcity of the amount of means of payment." For this purpose the training received in international co-operation during the recent transition period will have been of great value in coping with the problems "which will press for solution when it once becomes necessary to abandon gold as a basis for our monetary system."

This number also includes short articles on *Sweden's Import and Export of Capital*, and *The Swedish Sugar Trust.*

De Economist (Rotterdam).

NOVEMBER, 1926. *Theoretische economie en sociale politiek, I.* A. A. VAN RHIJN. *Loondiens conflicten.* A. F. VAN LAKERVELD.

DECEMBER, 1926. *Theoretische economie en sociale politiek, II.* A. A. VAN RHIJN. *Emmen.* M. J. W. ROEGHOLT. *Methode van berekning van het toekomstige bevolkingsaccres.* A. O. HOLWERDA.

JANUARY, 1927. *Winstbejag versus behaeftenbevrediging.* C. A. V. STUART. *Beschouwingen naar aanleiding van het rappart van de Staatscommissie voor het muntwesen.* C. HORTSEMA. *Nieuwe literatur over de Waardeleer.* R. VAN GENECHTEN. *De maximum bevolking van Nederland.* F. W. HOOFT.

Revista Nacional de Economia (Madrid).

SEPTEMBER-OCTOBER, 1926. *Mi Psicologia Económica.* Vizconde DE EZA. *Jorge Federico Knapp y su significación en la Teoria Dineraria.* A. B. CAÑETE. *La importancia de la estabilidad del cambio extranjero.* P. M. ATKINS.

NOVEMBER-DECEMBER, 1926. *J. F. Knapp: II.* A. B. CAÑETE. *La regulación de la producción.* J. M. GONZÁLEZ.

International Labour Review (Geneva).

NOVEMBER, 1926. *Collective Labour Agreements in Italian Agriculture.*

DECEMBER, 1926. *The Constitutionality of Labour Legislation in the U.S.A.* W. G. RICE. *The Conciliation and Arbitration of Industrial Disputes. Annual Holidays for Workers, and Collective Agreements.*

JANUARY, 1927. *The Third International Conference of Labour Statisticians. Some Aspects of the Labour Problem in China.* P. HENRY.

Other publications received.

Chinese Economic Monthly, Palestine and Near East Economic Magazine, L'Égypte Contemporaine, Monthly Bulletin of Financial and Economic Statistics of the Tokyo Chamber of Commerce, Irish Trade Journal (Free State), *Journal of the Bengal National Chamber of Commerce, L'Esprit International, Tattersall's Cotton Trade Review, The Secretary, L'Économiste Français, Wirtschaftliche Nachrichten.*

NEW BOOKS

(All British books are *London*, American books *New York*, unless otherwise stated.)

English.

BRIGGS (M.). Economic History of England. Second Edition. Clive. 1926. Pp. 548. 8*s*. 6*d*.

BROWN (F.). A Tabular Guide to the Foreign Trade Statistics of Twenty-one Principal Countries. Students' Bookshop. 1926. Pp. xxxiii + 125. 7*s*. 6*d*.

CANNAN (E.). Money. Fifth Edition, revised. P. S. King. 1926. Pp. 120. 3*s*. 6*d*.

CATLIN (G. E. G.). The Science and Method of Politics. Kegan Paul. 1926. Pp. 360. 12*s*. 6*d*.

CLAPHAM (J. H.). An Economic History of Modern Britain. The Early Railway Age, 1820–1850. Cambridge University Press. 1926. Pp. 623. 25*s*.

DAWSON (W. H.). Richard Cobden and Foreign Policy. Allen and Unwin. 1926. Pp. 340. 10*s*. 6*d*.

FITZRANDOLP (H. E.) and HAY (M. D.). The Rural Industries of England and Wales. Oxford University Press. 1926. Pp. 239. 5*s*.

HAWTREY (R. G.). Monetary Reconstruction. Second Edition. Longmans. 1926. Pp. 175. 10*s*. 6*d*.

LEHFELDT (R. A.). Controlling the Output of Gold. Preface by Dr. Schacht, President of the Reichsbank. London General Press. 1927. Pp. 31. 1*s*.

MACARTNEY (C. A.). The Social Revolution in Austria. Cambridge University Press. 1926. Pp. 288. 8*s*. 6*d*.

MALTHUS (T. R.). First Essay on Population, 1798. Clarendon Press. 1927. Pp. xxvii + 396. 10*s.* 6*d.*

[An exact reprint of the First Edition, published by the Royal Economic Society.]

MARSHALL (A.). Official Papers. Macmillan. 1927. Pp. 428. 10*s.* 6*d.*

[Contains the whole of Marshall's separate contributions to official inquiries on economic questions, reprinted from public documents; including both evidence and memoranda. Published by the Royal Economic Society.]

MARTIN (K.). The British Public and the General Strike. Hogarth Press. 1926. Pp. 128. 3*s.* 6*d.*

MATTHEWS (P. W.) and TUKE (A. W.). History of Barclays' Bank, Ltd. Blades. 1926. Pp. 441. £2 2*s.*

MILNES (N.). The Economics of Wages and Labour. P. S. King. 1926. Pp. 196. 8*s.* 6*d.*

NOLAN (P.). A Monetary History of Ireland. Part I: Ancient Ireland. P. S. King. 1926. Pp. 219. 5*s.*

PEDDIE (J. T.). Capitalism is Socialism. Longmans. 1926. Pp. 336. 7*s.* 6*d.*

REISS (R.). The Town-planning Handbook. P. S. King. 1926. Pp. 130. 3*s.*

ROBERTSON-SCOTT (J. W.). The Dying Peasant. Williams and Norgate. 1926. Pp. 282. 10*s.* 6*d.*

SMITH (W.). A Geographical Study of Coal and Iron in China. Hodder and Stoughton. 1926. Pp. 83. 5*s.*

UYEHARA (S.). The Industry and Trade of Japan. P. S. King. 1926. Pp. 326. 15*s.*

WILLIAMS (G. E.). A Synopsis of Economics. Methuen. 1927. Pp. 168. 4*s.* 6*d.*

[A guide to the more elaborate treatises, with references for further study.]

American.

ATKINS (D.). The Measurement of Economic Value. San Francisco. The Lantern Press. 1926. Pp. 189. $3.

BARNETT (G. E.). Machinery and Labour. Oxford University Press (as agents). 1926. Pp. 161. 10*s.*

BLACK (J.). Production Economics. Holt. 1926. Pp. 975. $4.50.

BREYER (R. F.). Agents and Contracts in Export Trade. University of Pennsylvania. 1927. Pp. 170.

COOMBS (W.). The Wages of Unskilled Labour in Manufacturing Industries in the U.S., 1890—1926. Columbia University Press. 1926. (P. S. King). Pp. 162. 9*s.*

DOUBMAN (J. R.). An Analysis of Display Advertising in Philadelphia Newspapers, to determine its Expressed Truth or Falsity. University of Pennsylvania. 1927. Pp. 94.

GEMMILL (P. F.). Collective Bargaining by Actors. University of Pennsylvania.

HANFORD (A. C.). Problems in Local Government. A. W. Shaw Company, 1926. Pp. 457.

HURLIN (R. G.) and BERRIDGE (W. A.). Employment Statistics for the United States. Russell Sage Foundation, New York. 1926. Pp. 214. $2.50.

[A plan for national collection, and a handbook of methods recommended by a Committee of the American Statistical Association.]

KUZNETS (S. K.). Cyclical Fluctuations. New York. 1926. Adelphi Company. Pp. 202.

LAPP (J. A.). Practical Social Science. Macmillan. 1926. Pp. 371. 7*s*.

LINCOLN (E. L.). Steps in Industry. Macmillan. 1926. Pp. 214. $2.

[A popular exposition of economic principles, for those engaged in industry.]

LYON (L. S.). Making a Living. Macmillan. 1926. Pp. 622. 7*s*.

[An introduction to the study of vocations, suitable for high schools.]

MOULTON (H. G.) and PASLOVSKY (L.). World War Debt Settlements. London. Allen and Unwin. 1927. Pp. 448. 8*s*. 6*d*.

[The most recent publication of the Institute of Economics, New York.]

SECRIST (H.). The Widening Retail Market. Chicago and New York. 1926. A. W. Shaw Company. Pp. 186.

VINACKE (H. M.). Problems of Industrial Development in China. Oxford University Press (as agents). 1926. Pp. 205. 9*s*.

WHITE (L. D.). Public Administration. Macmillan. 1926. Pp. 495. 14*s*.

French.

AUGÉ-LARIBÉ. Syndicats et coopératives agricoles. Paris: Colin. 1926. Pp. 211.

BONNET (G.). Les expériences monétaires contemporaines. Paris: Colin. 1926. Pp. 212, 16 mo. 9.80 *fr*.

BONNIATIAN (M.). La loi de variation de la valeur, et les mouvements généraux des prix. Paris: Giard. 1927. Pp. 154. 12 *fr*

COLSON (C.). Les changements apportés par la guerre à la richesse de la France. Paris: Alcan. 1926. Pp. 50. 7 *fr*.

[A short brochure, but full of interesting figures.]

CORNÉLISSEN (C.). Traité Général de Science Économique. Tome troisième: Théorie du Capital et du Profit. 2 vols. Paris: Giard. 1926. Pp. 463 + 662. 120 *fr*.

DIVISIA (F.). L'Indice monétaire et la théorie de la monnaie. Paris: Sirey. 1926. Pp. 111.

[A reprint of articles from the *Revue d'Économie Politique*, 1925 and 1926.]

FROIS (M.). La santé et le travail des femmes durant la guerre. (Histoire Économique de la guerre, du Carnegie Endowment.) Paris: University Press. 1926. Pp. 229.

GIDE (C.). La Coopération à l'étranger (Angleterre et Russie). Paris: Sirey. 1926. Pp. 230.

GRANDIN (A.). Bibliographie générale des sciences juridiques, politiques, économiques, et sociales, 1800–1926. Paris: Sirey. 1926. Pp. 854. 300 *fr.*

HANTOS (E.). La monnaie; ses systèmes et ses phénomènes en Europe Centrale. Paris: Giard. 1927. Pp. 259.

JÈZE (G.). Les dépenses de guerre de la France. (Histoire Économique de la guerre, du Carnegie Endowment.) Paris: University Press. 1926. Pp. 90.

LACONT (G.). Le retour à l'étalon-or. (La politique monétaire de l'Angleterre.) Paris: Payot. 1926. Pp. 240. 20 *fr.*

LAVERGNE (B.). L'ordre coopératif. Vol. I: Les faits. Paris: Alcan. 1926. Pp. 605. 45 *fr.*

[This first volume contains especially an account of the "régies coopératives," *i.e.* of State or municipal enterprises carried on in the public interest, chiefly in Belgium.]

MAHAIM (E.) (Edit.). La Belgique restaurée. Brussels: Lamertin. 1926. Pp. 686.

PIETRI-TONELLI (A. DE). Traité d'économie rationelle. (Tr. from third Italian edition.) Paris: Giard. 1927. Pp. 639. 90 *fr.*

RAYNAUD (B.). La vie économique internationale. Paris: Sirey. 1926. Pp. 488.

SELLIER et BRUGGEMAN. Paris durant la guerre. (Histoire Économique de la guerre, du Carnegie Endowment.) Paris: University Press. 1926. Pp. 90.

YANEFF (S.). La constitution de l'U.S.S.R. Paris: Giard. 1926. Pp. 72. 12 *fr.*

German.

BECKMANN (F.). Die internationale agrare Arbeitsteilung Europas. Kieler Vorträge, No. 16. 1926.

BENDIXEN (F.). Das Wesen des Geldes. Fourth Edition. Munich. Duncker and Humblot. 1926. Pp. 66. 3 *m.*

BÜCHNER (R.). Die Finanzpolitik und das Bundessteuersystem der V. S. von Amerika von 1789 bis 1926. Jena: Fischer. 1926. Pp. 471. 21 *m.*

CONRAD (O.). Absatzmangel und Arbeitslosigkeit als Dauerzustand. Wien: Hölder-P.-T. 1927. Pp. 104. 3 *m.*

DEUMER (R.). Die Verstaatlichung des Kredits. Munich: Duncker and Humblot. 1926. Pp. 571. 14.50 *m.*

DRECHSLE (H.). Das Schweizerische Bankgeschäft. Basel. 1926. Pp. 107.

HEICHEN (A.). Deutschlands Zahlungsbilanz. 1925. Leipzig: Teubner. 1926. Pp. 94. 5 *m.*

KAMBE (M.). Grundzüge des japonischen Steuersystems der Gegenwart. Jena: Fischer. 1926. Pp. 90. 4.50 *m.*

KUSKE (B.). Die historischen Grundlagen der Weltwirtschaft. Kieler Vorträge, No. 17. 1926.

MATAJA (V.). Die Reklame. Fourth (revised) Edition. Munich: Duncker and Humblot. 1926. Pp. 391. 14.50 *m.*

MOFT (O.). Die Selbstverwaltung der Wirtschaft in den Industrie- und Handelskammern. Jena: Fischer. 1927. Pp. 159. 6.50 *m.*

MOLL (B.). Die modernen Geldtheorien und Währungssysteme. Stuttgart: Enke. 1926. Pp. 82. 5.70 *m.*

MUHRS (K.). Anti-Marx. Bd. I. Der Produktionsprozess des Kapitals. Jena: Fischer. 1927. Pp. 571. 30 *m.*

PRICE (H. T.). Volkswirtschaftliches Wörterbuch. Teil I, Englisch-Deutsch. Berlin: Springer. 1926. Pp. 220. 9.60 *m.*

[A useful work, of which the second volume will be of special interest to English readers. The explanation of technical terms, Acts of Parliament, schemes such as the Rowan or Stevenson plan, Royal Commissions and similar bodies, etc., is supplemented by a list of English and American authors and journals, so that special usages are referred to by auth r text.]

RÜHL (A.). Vom Wirtschaftsgeist in Amerika. Leipzig: Quelle and Meyer. Pp. 122.

SCHLESINGER (R.). Die Zollpolitik der V. S. von Amerika. Jena: Fischer. 1926. Pp. 106. 4.50 *m.*

SCHUMPETER (J.). Theorie der wirtschaftlichen Entwicklung. Munich: Duncker and Humblot. 1926. Second (revised) Edition. Pp. 369. 14.50 *m.*

SOMBART (W.). Das Wirtschaftsleben im Zeitalter des Hochkapitalismus. Vol. I. Munich: Duncker and Humblot. Pp. 514. 14.5 *m.*

TSCHAJANOFF (A. W.). Die Landwirtschaft des Sowjetbundes. Berlin: Parey. 1926. Pp. 40.

VON JANKOVICH (B.). Beiträge zur Theorie des Geldes. Wien. 1926. Pp. 158.

VON WALTERSHAUSEN (S.). Die Weltwirtschaft und die staatlichen geordneten Verkehrswirtschaften. Leipzig: Gloeckner. 1926. Pp. 416. 22 *m.*

WEIGMANN (H.). Kritischer Beitrag zur Theorie des Internationalen Handels. Jena: Fischer. 1926. Pp. 84. 4 *m.*

Italian.

EMPOLI (A. DA). Riflessioni sull' equilibrio economico. Reggio-Calabria: Vitalone.

FASIANO (M.). Sulla teoria della esenzione del risparmio dall' imposte. Torino: Bocca.

GRAZIANI (A). Critica ricardiana. Modena.

KRETSCHMANN (J. G.). La questione agraria in Russia. Piacenza. 1926. Pp. 330. 25 *lire.*

LORIA (A.). Economia politica (Third edition). Torino, 1927. Pp. 844. 70 *lire.*

PORRI (V.). L'Evoluzione economia Italiana nell' ultimo Cinquentennio. Roma. 1926. Pp. 295.

Swedish.

HECKSCHER (E. F.) (Ed.). Sveriges ekonomiska och sociala historia under och efter Världskrijet. Stockholm: Norstedt. 1926. 2 vols in 1. Pp. 365 + 304.

Indian.

SAPRE (B. G.). Economics of Agricultural Progress. Sangli. 1926. Pp. 225. 2.8 *rup.*

THE ECONOMIC JOURNAL

JUNE, 1927

AN INDEX OF THE PHYSICAL VOLUME OF PRODUCTION

To-day it would be superfluous to dilate on the need for, and uses of, an index of the physical volume of production. The lack of this statistical measurement is one of the main reasons for the recent uncertainty as to some of the most elementary facts about our economic life, notably the magnitude of our national income. An index of production is useful in two main respects. First, it affords a broad comparison of a large proportion of the national income at different dates. It is hardly practical politics to hold an annual census of production, and the declared policy of the Board of Trade is to have a quinquennial census. This provides the opportunity for direct observation, and the rôle of a production index is that of dead-reckoning. Secondly, it supplements other criteria which indicate the current activity of industry, for even the most comprehensive statistics of unemployment are after all merely an indirect means of estimating what a production index supplies directly. It is, in fact, little short of a national disgrace that this vital statistical measurement has not been supplied long ago. In the absence of any official effort to remedy the deficiency, I was commissioned three years ago by the London and Cambridge Economic Service to try to compile such an index. With the invaluable assistance of the editor, Professor A. L. Bowley, I succeeded in compiling an annual index from 1907–13 and since 1920, which, while very incomplete and tentative, may perhaps lay claim to serious consideration. The task was rendered particularly difficult by the long period since the census of production in 1907. A similar census was taken in 1912, but the war interrupted tabulation and the results have never been published. A period of nearly twenty years has therefore elapsed since the last direct observation, and the risk of error in our dead-reckoning is correspondingly great. By the time that this article appears, we shall presumably be in possession of many of the preliminary reports of the 1924 census, and it might have been deemed advisable to have

waited for a short period. As, however, my index has come in for a good deal of criticism during the last year or two, and as the explanation of its composition, claims and limitations has only been available in the publications of the London and Cambridge Economic Service, it has been thought timely to publish a more readily accessible, if compressed, account of the index, and to meet its critics on fair ground—that is, before the 1924 census makes it easy to be wise after the event! Moreover, in addition to its interest as affording an absolute measurement of production in comparison with the pre-war period, the index provides a relative measurement from year to year, a matter which is of great interest in itself, especially since 1920, and one on which the census will not, of course, throw further light. This relative measurement has been attempted on a quarterly as well as an annual basis, as will be seen later, but it should be realised quite clearly that the quarterly index is not to be used for absolute but only for short-period relative comparisons, since it is far less comprehensive and less accurate than the annual index.

Inherent Limitations of an Index of Production

In the construction of an index of production there are three inherent difficulties which, inasmuch as they are almost insurmountable, impose on the accuracy of the index limitations, which under certain circumstances may be somewhat serious. The first is that many of the products of industry are not capable of quantitative measurement. This difficulty appears in its most serious form in the case of the engineering industry. Measurement by number of articles, weight or horse-power, may give a reasonably reliable index for the activity of particular firms over short periods, but the diversity of products, and the alteration in the character of the output of individual firms over longer periods, make sampling, except on a very large scale, an extremely risky procedure, while the combination of a number of indices representing different sections of the industry presents great difficulties. Such sampling is the only solution, but the task was obviously too big for an individual investigator, and I had to reconcile myself to a very indirect representation of this highly important industry. This is a serious fault in the index, though, as will be shown later, its actual effects are not so great as might be imagined.

The second inherent difficulty is that the output of an industry, even when quantitatively measurable, may over a series of years change qualitatively as well as quantitatively. Thus during the last twenty years there has almost certainly been a tendency towards an improvement in the average quality of the yarn and

cloth produced by the cotton industry, and therefore, though the quantity produced might be the same, the real return to the application of the resources employed in the industry would be greater. If the same were true of many other important industries, which is possibly the case, it cannot be argued that because the index registers the same at two distant dates, therefore the income of the community from the production of material goods is the same: it may be higher or lower according to changes in the quality of the product. Fortunately such changes only take place slowly, and with a quinquennial census of production the error in future is not likely to be substantial. But an interval of nearly twenty years is considerable, and since there is some evidence in support of the idea that in this country the long-established general tendency towards finer quality work continues, our measurement of the volume of production in the last year or two as compared with the pre-war period may yield results which appreciably under-estimate the national income.

The third inherent difficulty lies in the inclusion of new industries which develop importance as the years go on. Again this difficulty is not serious if a quinquennial census of production provides the means of revising the structure of the index, but over the last twenty years there have been some remarkable developments, of which the motor trade and the artificial silk industry are notable examples, and this is another reason why the index over this long period will probably tend to register too low.

Methods of Construction

We now come to the practical difficulties involved in the construction of an index of production for this country. The fundamental difficulty is, of course, the almost complete absence of statistics of the quantities of goods produced. With important exceptions, such as minerals, iron and steel, ships, and certain chemicals, the only available statistics are for goods exported, and in nearly all cases the proportion of exports to total production is far from constant, while the actual ratio has not been ascertained definitely since the 1907 census. In the main we have to look for some other indication of changes in the volume of production. The best alternative is by measurement of the quantity of raw materials consumed, for, owing to the fact that so large a proportion of our raw materials is imported, statistics are more generally available. This procedure involves the assumption that the methods of manufacture do not change in such a way as to alter appreciably the ratio of raw material con-

sumption to finished product. This change is unlikely over short periods, though, again, twenty years is over long. A far greater source of error lies in variations between the rate of importation and the rate of consumption, owing to changes in the volume of stocks. Some information is available as to port stocks, but, with one or two exceptions, complete secrecy surrounds the stocks held by individual manufacturers. The potential error in the final index is not likely to be very great, though that in the indices for certain industries in particular years may well be considerable.[1]

Having obtained index-numbers of some sort for as many different industries as possible, there remains the problem of combining them into an average. The obvious method of weighting was according to the relative net products of the industries as given in a census of production. This involved using data nearly twenty years old, and during this period the aggregate net product of most industries must have altered in relation to one another. To some extent such alterations will tend to a mutual cancellation, and the error in the final average will not probably be considerable, but it is disturbing, inasmuch as it is impossible to say which way the error lies.

The general method of calculation may therefore be summed up as follows. In order to obtain a comparison of the normal pre-war income with that of the post-war period—which is the primary objective—the average of the years 1907–13 has been taken as the base for the index-numbers, and the combination of all the series has been effected by using the ordinary arithmetical weighted average, since there is no advantage for this purpose in more complicated statistical methods. The structure has been built up on the basis of the 1907 census classification: an attempt has been made to obtain one or more[2] series of production figures for each industry for which a separate net product is there given; these have then been transformed into index-numbers which have been weighted by the net product of the industry, and combined into the same groups as classified in the census: these groups have then been similarly combined into a final index-number, representative of changes in the volume of production as a whole.

The 1907 census of production classified the industries of the country in thirteen groups. The last group consisted of Public Utility Services (*e.g.* water, lighting, street traction, postal services, and the expenditure of local authorities), and may, therefore,

[1] This and other difficulties and problems are more fully discussed in Special Memorandum No. 8 issued by the London and Cambridge Economic Service.

[2] Where more than one series is, in fact, available for any one industry, they have been combined in what seemed the most suitable way in each case.

be neglected for our purpose. Another group—Miscellaneous Trades—can also be passed over as relatively unimportant. The greater part of the products of the Clothing Trade Group is not quantitatively measurable, and can only be represented by increasing the weight assigned to the Textile Group, which furnishes its raw materials. This leaves ten groups of industries, but there seems no adequate reason for classifying rubber and leather manufacture as allied industries, as is done in the census. These have, therefore, been divided. To these eleven groups of manufacturing industries must be added agriculture, which was not included in the 1907 census, though it formed the subject of a special contemporary inquiry. Twelve index-numbers for the various groups of allied trades have, therefore, been constructed, based on the following statistical information:

Group I. Agriculture.—Production of crops, meat, milk and wool.

Group II. Mines and Quarries.—Production of principal minerals.

Group III. Iron and Steel, Engineering and Shipbuilding Trades.—Production of iron and steel, tin-plate, galvanised sheets, exports of railway locomotives and railway wheels and axles, tonnage of ships launched.

Group IV. Metal Trades other than Iron and Steel.—Copper, lead, tin and zinc: home smelter output and total metal manufactured.

Group V. Textile Trades.—Separate series for cotton, wool, jute hemp and linen, silk, and lace manufacture, based mainly on the Trade Returns of Imports and Exports at various stages.

Group VI. Food, Drink and Tobacco Trades.—Separate series for grain milling, total flour consumption, sugar refining, cocoa, and tobacco manufacture—all based on the Trade Returns—and the production of beer and spirits.

Group VII. Chemical and Allied Trades.—Production of soda ash (supplied by Messrs. Brunner, Mond & Co., Ltd.), sulphuric acid, and coal tar. Net imports of oil seeds, and phosphate of lime.

Group VIII. Paper, Printing and Allied Trades.—Net imports of raw materials reduced to their paper making equivalents.

Group IX. Leather Trades.—Net imports of raw materials reduced to their leather content.

Group X. India-rubber Trades.—Net imports of crude rubber, gutta-percha and Balata.

Group XI. Timber Trades.—Net imports of timber.

Group XII.—Clay, Stone, Building and Contracting Trades.—Represented in part by production of cement.

NOTE I.—Corrections for stocks at different stages are possible in the case of non-ferrous metals, cotton, grain and flour, and indiarubber.

NOTE II.—Where statistics depend on Imports and Exports, it must be remembered that the Irish Free State is excluded in the Trade Returns from April 1, 1923, but since no important industry is there carried on, this matter can be neglected, though for this reason the Agricultural Statistics used have been confined to Great Britain, except in the case of wool.

THE ANNUAL INDEX

Space forbids the detailed explanation of the data on which each series rests, and also the presentation of the detailed results; for this, reference must be made to the London and Cambridge Economic Service. Special Memorandum, No. VIII, and also to the monthly issues for June 1925 and June 1926, which contain minor alterations and amendments. All that can be given here is the following table, which shows the index-numbers for each of the twelve groups of industries, and in the last column the final index.

Index-Numbers of Production for the Following Groups of Industries, and the Combined Index-Number for all Industries.

(Average 1907–13 = 100.)

Group Number.	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.	
Industries.	Agriculture.	Mining.	Iron and Steel, Engineering and Shipbuilding.	Metal Trades other than Iron and Steel.	Textile Trades.	Food, Drink and Tobacco Trades.	Chemical and Allied Trades.	Paper, Printing and Allied Trades.	Leather Trades.	India-rubber Trades.	Timber Trades.	Cement Trade.	Combined Index for all Industries.
Weights (=£00,000's net product).	1897.	1195.	1531.	119.	1216.	895.	216.	336.	51.	30.	214.	25.	
Year.													
1907	99·5	99·9	105·6	91·0	102·1	97·1	97·4	87·1	85·5	88·7	101·9		**100·1**
1908	100·4	97·7	80·2	109·9	90·4	96·6	94·7	92·6	91·6	59·6	94·1		**93·2**
1909	102·1	98·1	86·9	109·7	98·7	98·1	97·0	92·7	95·9	83·1	96·1		**96·8**
1910	100·8	98·8	92·8	96·9	91·4	97·9	98·9	102·8	102·7	121·6	100·7	100·0	**97 1**
1911	97·6	101·3	108·8	101·4	101·0	100·3	100·1	99·1	100·9	94·8	95·1		**101 4**
1912	100·1	97·3	106·7	98·0	108·3	105·3	103·5	111·0	118·5	103·7	98·9		**103 5**
1913	97·8	106·7	119·3	93·3	108·2	104·8	108·3	114·7	107·0	148·0	113·2		**107 5**
1920	88·9	84·9	115·7	63·6	76·4	114·0	134·5	129·3	105·3	170·0	74·2	101·6	**97·2**
1921	85·1	59·8	66·6	39·6	58·4	112·4	90·3	62·0	70·7	99·4	42·5	85·1	**73 7**
1922	93·4	90·0	75·7	41·7	80·1	110·0	114·3	105·0	87·5	67·4	72·8	81·0	**88·7**
1923	90·8	103·5	85·6	68·9	67·7	103·8	128·4	130·8	105·1	155·2	86·1	93·5	**92 3**
1924	94·7	98·1	97·9	82·2	73·1	107·8	134·7	141·8	112·1	140·4	101·6	110·6	**97·5**
1925	100·8	90·0	87·1	86·7	76·3	109·3	128·3	140·6	106·3	181·7	192·1	130·0	**96 3**

COMPARISON WITH OTHER INFORMATION

The following table shows the index of production, an index of employment based on the trade union statistics of their unemployed members, and an index of the weight of minerals and merchandise carried on the railways :—

Index-Numbers of Production, Employment and Railway Goods Traffic.

(Av. 1907–13 = 100.)

	Production.	Employment.	Railway Goods Traffic.
1907	100·3	101·1	99·6
1908	93·3	96·8	94·9
1909	96·8	96·9	96·5
1910	97·1	100·0	99·2
1911	101·3	101·8	101·0
1912	103·6	101·0	100·3
1913	107·5	102·7	108·5
1920	97·2	102·4	94·7
1921	73·7	88·9	64·9
1922	88·7	88·8	89·8
1923	92·3	92·9	102·2
1924	97·5	96·3	99·8
1925	96·3	93·8	94·0

Such a comparison is of extremely limited utility. Absolute comparison is obviously not admissible in respect of the employment index, and must be qualified as regards railway traffic owing to the development of road transport. In the comparison of 1921 with 1920, the employment index is obviously too high, for it takes no account of short time, while the traffic index is too low, because coal exercises an altogether disproportionate influence, and in that year there was the three-months coal strike. In 1922, 1923 and 1924, production and employment approximate so closely that it is difficult to realise that these employment figures can only, as it were by chance, afford an absolute measurement of production, for not only has the total occupied population altered, but also the hours of work, etc.

In 1925 the employment index registers a rather greater decline than the production index, but this is probably due to the over-representation of the mining and metal industries in these trade union returns, which industries were specially depressed. The statistics of unemployment under the National Insurance Acts have lately become much more reliable than the trade union returns, and in 1925 these register a decline in employment much smaller than do the trade union returns, and in almost exact correspondence with the decline in the production index.

Average of the monthly percentages of insured workers reversed to show *employment* :—

1923	88·4%
1924	89·7%
1925	88·7%

The production index and the railway traffic index agree reasonably in 1922 and 1924, but the latter is inflated by the influence of coal in 1923, and correspondingly deflated in 1925. This difficulty cannot be surmounted by taking merchandise traffic only, since that excludes our most important industry with all its ramifying effects. For an absolute measurement of the volume of industrial activity, the merchandise traffic and the coal traffic must be combined according to the relative importance of manufacture and coal mining from the point of view of national production, and this results in bringing the traffic index below the production index, which, in view of the development of road transport, supports the accuracy of the production index. Conclusions from these traffic returns must not, however, be pressed too far.

In its issue of October 4, 1924, the *Economist* newspaper published an article entitled "National Income and Taxation," which contained an index of production since 1920, based on the year 1913. No detailed explanation of the methods of construction was given, and it appears indeed to represent a round estimate rather than the results of formal calculations. On October 20, 1925, Mr. W. T. Layton, the editor of the *Economist*, in a paper read before the Chartered Institute of Secretaries, added figures for the years 1924 and 1925. Adjusting our index to 1913 as the base year, the two index-numbers compare as follows:

	L. & C. Economic Service.	*Economist.*
1913	100	100
1920	90·4	95
1921	68·6	80
1922	82·5	83
1923	85·9	95
1924	90·7	98
1925	89·6	100

In his paper, and also during a discussion at the Royal Statistical Society's meeting in January 1927, Mr. Layton presented arguments in support of the greater accuracy of the *Economist* index, pointing out that in certain cases the available material, on which my index was based, was far from satisfactory, and that in particular the engineering industry was hardly represented at all in my index for the Ferrous Metal Group of industries (Group III). Since the engineering industry has not suffered the same degree of depression as have iron and steel manufacture and shipbuilding, Mr. Layton maintained that

therefore the Group III index was much too low, that, in fact, the group index for 1924 ought to register higher than for 1913, and that this would "lift the whole London and Cambridge Series several points."

There can be no doubt whatever that the inadequate representation of the engineering industry is a most serious matter—in my original memorandum I described it as a "glaring deficiency." It may further be agreed that the inclusion of an index for the engineering industry would raise the Group III index, and therefore the final index. Where I differ from Mr. Layton is merely on the actual quantitative effect. Some idea of this may be obtained by experiment. Let it be assumed that a true index-number for the engineering industry, if it were available, would, for 1924, register 130 on a base representing the average output in the period 1907–13. This is pure assumption, but it fits in reasonably well with the evidence quoted by Mr. Layton, and errs if anything on the high side.[1] If then such an index for engineering be included with the existing series for 1924, and weighted according to the 1907 census, the results, taking 1913 as the base, would be to raise the index for Group III from 82·1 to 95·3, and the final index from 90·7 to 93·6. Mr. Layton's argument that the group index ought to register higher for 1924 than for 1913 seems rather too optimistic, while he appears also to have over-estimated the effect on the final index. The omission of engineering is certainly by far the most serious defect in my index, and it is difficult to believe that the combined result of all the other similar deficiencies would raise the final index more than, say, 2 points at the outside, for these other deficiencies can hardly be supposed to create effects entirely in the one direction.

Personally I am extremely doubtful whether an index for the engineering industry as a whole would register as high as 130 (on base 1907–13) in 1924. This figure would raise the final index by approximately 3 points. I doubt whether the true increase would be much more than $1\frac{1}{2}$ points. In general I should agree that the net result of the non-representation, or the inadequate representation, of many other minor industries might be to raise the index by another $1\frac{1}{2}$ points. Further, though this is due to the inevitable limitations of any index of production over a long period, account must be taken of the appearance of virtually new

[1] The German Engineering Association has presented to the Economic Conference an estimate that in 1925 the output of the British engineering industry was 25 per cent. greater than in 1913. This has, however, been criticised as too high by the British Engineering Association. The increase would be considerably smaller, of course, on the basis of the average output of the seven pre-war years.

industries, such as artificial silk and wireless equipment, whose output is not included in the index, though the resulting tendency to depression in some of the industries which they are superseding is registered. Again, there has probably been on balance a tendency towards a higher average quality of production. Taking all these points together, it must be regarded as practically certain that my index does register too low as compared with the pre-war period, but it is highly improbable that the error is more than 5 per cent.: in other words it is highly improbable that production in 1924 was more than 95 per cent. of the 1913 level.

Evidence in support of this conclusion has recently been provided by Professor Bowley and Sir Josiah Stamp in their comparative study of the national income in 1911 and 1924. For the same reasons as have just been considered, they conclude that our index registers too low, and that instead of the recorded fall of 3·8 per cent. from 1911 to 1924, the index should register the same in both years. With this qualification estimates of the national income based on production and on income are closely reconcilable,[1] and the authors therefore reject the *Economist* index, which would show a 5 per cent. increase in material production in 1924 as compared with 1911. The *Economist*, in its issue of March 5, 1927, suggested that the index of price changes, by which the authors eliminated the change in the value of money between the two dates, was too high, on the ground that undue preponderance was given to export prices and the cost of services, including transport, and that therefore the volume of production so calculated should be larger in 1924. Whatever may be the case in respect of services, it is, however, difficult to suppose that export prices are higher than home prices, which is what the *Economist* implies. For a settlement of the whole controversy we must await the full report of the Census of Production.

The Quarterly Index

A brief account of the quarterly index may now be given. As has already been pointed out, the quarterly index is purely supplementary to the annual index, since it is far less comprehensive owing to the dearth of statistical information available quarterly: its sole use is as a supplement to other information relating to current productive activity. In addition to the limitations imposed by the scarcity of data, there is the further difficulty of seasonal variations in the importation of raw materials, since corrections cannot often be made for changes in stocks; and there is also the lesser difficulty of seasonal variation in the

[1] Bowley and Stamp, *The National Income*, 1924, p. 55.

actual volume of production, including the uneven incidence of holiday periods. The quarterly index admittedly rests on an all too slender basis, and requires careful interpretation, but even so it seems worthy of consideration in conjunction with other information as to the state and prospects of trade.

The quarterly index has been built up on precisely the same general lines as the annual, and the material available for each group of industries may be briefly summarised as follows:

Group I.—No quarterly index is obviously possible.

Group II.—Production of coal is alone promptly available.

Group III.—Production of pig iron and steel. For shipbuilding, tonnage under construction has been taken, and not tonnage launched as in the annual index, since this affords a better indication of the current activity of the industry, which is the principal aim of the quarterly index. Exports of railway locomotives and railway wheels and axles are available.

No complete quarterly series is available for the production of tin plate or galvanised sheets.

Group IV.—Neither home smelter outputs nor the production of home ores are available quarterly. The only available indicator for the home smelting industry is, therefore, the net imports of ores. In the case of copper, for which alone the smelter output from imported ores is really important, the ore imports have been added to the net imports of metal less U.K. exports, corrected for changes in port stocks since 1920. One series is calculated for copper, and one for lead, tin and zinc as in the annual index.

Group V.—For cotton the series is based on the quantities "Forwarded to Trade." The absence of any information whatever in regard to stocks of wool, jute, hemp and linen makes a quarterly index impracticable. In the silk trade the position is different, and though changes in stocks are not known, the method employed for the annual index may reasonably be used. The method used in obtaining the annual index for the lace trade is not sufficiently reliable on a quarterly basis. Only two series, for cotton and silk, are therefore available for this group.

Group VI.—All the series used in the annual index are available quarterly with the exception of spirits and beer. Since 1920 the production of beer (bulk barrels) has been considerably less than in pre-war years, and owing to its large net product, its omission would certainly result in too high an index for this group. It has therefore been thought desirable to exclude sugar, which shows a large increase, by way of effecting some sort of balance. As it is, the index still registers too high. Again, to include the series for grain milling as well as that for total flour consumption appeared to give too much importance to the industries concerned with bread-stuffs, and accordingly only the latter has been used. The series taken, therefore, for this group are flour, cocoa and tobacco consumption.

Group VII.—Messrs. Brunner Mond have kindly supplied a quarterly as well as an annual index of their production of soda ash. No quarterly statistics are available for the production of coal tar and pitch, nor, until recently, of sulphuric acid, but the net imports of iron pyrites give some indications as to the latter, and have been utilised. The series for seed-crushing and fertilisers can be calculated from the Trade Returns.

Group VIII.—The series can be calculated from the imports of paper raw materials in the same way as for the annual index.

Group IX. Leather.—No quarterly index is obtainable.

Group X. Rubber.—Quarterly imports were found quite unsatisfactory.

Group XI. Timber.—Quarterly imports were found quite unsatisfactory.

Group XII. Production of Cement is not available quarterly.

The following table shows the group index-numbers, and the final index is shown in the last column, together with the weights used. The average of the four quarters of 1913 has been taken as the base (= 100), as it was not thought necessary to have a quarterly index for earlier years.

Index-Numbers of Production for the Following Groups of Industries and the Combined Index-Number for all Industries.

(Average of 1913 = 100.)

		Mining.	Iron and Steel and Ship-building Trades.	Metal Trades other than Iron and Steel.	Textile Trades.	Food, Drink and Tobacco Trades.	Chemical and Allied Trades.	Paper, Printing and Allied Trades.	Combined Index for all Industries.
Weights (= £ million) net product.		120.	153.	12.	91.	70.	22.	34.	
1913	1	101·3	100·5	102·1	110·6	97·0	105·9	82·0	**101·1**
	2	101·3	99·6	106·0	89·2	102·2	94·7	107·2	**98·9**
	3	96·0	99·9	97·5	81·2	102·6	102·2	101·2	**96·0**
	4	101·4	99·9	94·2	117·1	99·0	97·2	109·5	**103·7**
1914	1	101·3	99·8	77·6	108·7	91·1	98·9	80·4	**98·7**
	2	93·6	92·7	90·1	91·0	92·6	95·0	94·4	**93·3**
1920	1	86·4	121·9	77·2	94·2	126·7	104·2	88·8	**104·9**
	2	80·9	129·5	56·2	57·8	118·5	128·2	129·5	**101·2**
	3	82·5	126·1	89·8	62·5	126·0	105·3	129·8	**102·4**
	4	67·8	116·4	72·6	63·1	109·2	121·4	102·7	**92·2**
1921	1	75·6	109·9	60·4	39·4	115·4	94·0	41·4	**82·9**
	2	0·2	66·0	63·5	27·0	123·3	40·9	31·2	**47·6**
	3	73·0	71·1	54·5	59·6	124·5	71·1	82·7	**77·2**
	4	80·0	50·9	43·6	68·4	114·2	99·4	61·1	**62·5**
1922	1	86·3	64·1	42·4	67·0	114·7	92·6	44·1	**76·3**
	2	80·1	60·5	44·9	73·2	120·2	100·2	86·7	**78·9**
	3	88·2	60·7	60·4	72·7	135·0	96·1	117·1	**85·1**
	4	95·7	65·8	57·0	70·3	109·4	102·2	95·8	**83·2**
1923	1	98·9	77·8	74·8	66·1	122·9	116·5	88·2	**89·2**
	2	97·1	83·5	78·6	53·4	121·1	99·9	114·1	**89·0**
	3	92·0	70·2	79·5	51·4	117·5	96·1	143·9	**84·7**
	4	99·7	78·2	90·0	77·6	120·1	95·7	109·0	**92·1**
1924	1	100·5	84·6	90·0	67·5	118·5	103·3	66·4	**89·6**
	2	93·1	81·5	85·4	59·4	122·7	112·8	129·6	**90·6**
	3	89·0	74·3	101·6	53·1	130·9	113·3	157·2	**89·6**
	4	92·2	70·9	95·5	82·4	133·5	111·2	141·2	**93·9**
1925	1	94·4	72·7	91·8	89·0	121·7	117·2	95·5	**91·6**
	2	82·2	67·4	92·5	79·8	125·4	99·3	122·9	**87·0**
	3	78·3	59·6	100·8	65·2	121·4	94·4	134·3	**81·2**
	4	88·4	60·5	96·2	86·4	127·0	98·0	137·5	**88·8**
1926	1	96·0	67·2	106·6	87·2	122·1	97·9	113·3	**90·8**
	2	27·9	36·0	93·2	67·3	126·3	83·5	141·3	**62·9**
	3	9·7[1]	17·6	108·0	53·2	122·6	83·5	142·4	**50·3**
	4	39·0[1]	30·5	109·7	70·2	124·2	93·9	127·9	**64·1**
1927	1	95·7	78·1	114·5	92·4	138·4	118·1	134·8	**99·7**

[1] Partly estimated.

The final quarterly index, averaged for each year, compares as follows with the annual index, adjusted to 1913 as base.

	Average of Quarterly Indices.	Annual Index (base 1913 = 100).
1913	100	100
1920	100·2	90·4
1921	67·5	68·6
1922	80·9	82·5
1923	88·7	85·9
1924	90·9	90·7
1925	87·2	89·6
1926	67·0	

The only really serious discrepancy is for 1920, partly because the quarterly index does not include the production of tin-plate and galvanised sheets nor the timber trades, nor, of course, agricultural production, all of which were depressed in that year, but mainly because the tonnage under construction in shipbuilding yards was far greater than in 1913, while the tonnage launched, which is used in the annual index, was about the same. The year 1920 was exceptional in many ways. The minor discrepancies in other years can be explained by a similar examination of the component figures. But when the annual index is available for 1926, it will probably register very considerably higher than the average of the quarterly indices. It is true that the coal strike of 1921 did not result in any appreciable discrepancy between the two series, but those industries which are represented in the annual though not in the quarterly index, fared very much better in 1926 than in 1921, owing to the use of imported coal, the more extensive development of electrical power, and other well-known reasons. But even if the annual index for 1926 registers much higher than the average of the quarterly indices, it will still be too low as a measure of the volume of production, because the engineering industry is inadequately represented, and in that industry production was fairly well maintained by the use of imported iron and steel: hence the index for Group III will register much too low, since it is predominantly based on iron and steel production, which virtually ceased. The annual index for 1921 is not open to the same criticism, even though iron and steel production was similarly affected, first because the engineering industry did not then maintain production to anything like the same extent, and secondly because the very high index for the shipbuilding industry brought the index for Group II up to a

point which was probably reasonably representative of the engineering industry, and thus the final index was not invalidated.

The Index of the Future

On January 18, 1927, Mr. A. W. Flux read a paper before the Royal Statistical Society entitled "Indices of Industrial Productive Activity," in which he discussed at length the general problems and difficulties involved. He also announced the intention of the Board of Trade to compile a quarterly index of production as soon as the 1924 Census of Production results become available to provide the necessary basis. Mr. Flux proposes to utilise the 1924 census net products in weighting the various series for combination, and in general to utilise the same methods of construction as have been utilised in my index. He gave a schedule headed "Nature of Information possibly available for the Several Trades." Without going into detail, it may be observed that this information is almost entirely in the form of the actual output of the various industries. As the result of my initial inquiries in 1924, I satisfied myself that where I could not secure statistics of output, the reason, with one notable exception, was not that trade associations were unwilling to supply such output returns as they had, but that they simply had not got the information: hence my resort to the consumption of raw materials as data. With the qualification that in one or two industries of minor importance returns have recently become sufficiently complete to be of use, I think I may claim that both my annual and quarterly index-numbers are based on statistics of actual output in so far as they exist, and that means to a relatively insignificant extent. The collection of new special returns is obviously a difficult task, especially as no compulsion is to be attempted. How far Mr. Flux's schedule represents an aspiration rather than the results of actual preliminary inquiries was not revealed, but the fact, for example, that the output of "tops" is entirely omitted from the wool industry—which was pointed out in the discussion on the paper—raises some fears that the details of the scheme have not so far received very exhaustive study. But it is to be sincerely hoped that this suggestion is as unwarrantable as it is ungracious, and that the Board will be able to start the index before the year is out. The need for a reliable index of production is great, and it is intolerable that it should be left to private enterprise to supply this gap in the data of our national economy. Speaking both for the London and

Cambridge Economic Service and myself, I may say that we are under no delusion as to the weakness and deficiencies of our index, and no one will be more pleased when this task is taken over by the State with its more ample resources. Meantime, we shall probably recast our index on the new basis provided by the 1924 census, making use of such further current data as have become available, and continue it until the Board of Trade supply a better article.

J. W. F. ROWE

THE LAWS OF DIMINISHING AND INCREASING COST

In this article, the writing of which was suggested to me by reading Professor Sraffa's very interesting paper with a similar title in the December issue of the Economic Journal, I propose to discuss—analytically, not statistically—the relation between the quantity of output and the costs of production of particular commodities. At a later stage some secondary matters will come into debate. Our *primary* problem is with the relation between quantities of output and the aggregate cost involved in producing each several quantity. Obviously no relation of this sort exists in regard to any commodity in a general abstract way. The nature of the relation—the form of the cost function, if we will—must depend at least in part upon the stage of scientific knowledge and technical competence to which society has attained. Therefore we must imagine ourselves placed at a particular point of time in a particular economic environment. But this does not mean that the cost function we are in search of is a statement of the aggregate costs which would be involved in producing various quantities of our commodity at that particular point of time. Rather, starting at that particular point—the present instant—I ask: "What would be the aggregate cost of producing a unit per month if whatever time was necessary from now on was allowed for industry to adapt itself to producing a unit per month? what would be the aggregate cost of producing a unit per month if industry was adapted to that output? and so on." In Marshall's language, I am concerned with the long-period or normal relation between output and cost, not with any short-period relation; but by the normal relation I mean the relation that is normal now in the existing state of the world, not with the relation which would have been normal 100 years ago or will be normal 100 years hence.

2. The concept of a cost function thus set out is still not free from ambiguity. For, since the adapting of an industry to any particular scale of production is liable to cover a certain period of time, circumstances external to the industry may intervene and modify costs in it during the course of the period; and, since the period required for adaptation may be different

for different scales of production, the modifications thus introduced may be different for different scales. Thus, suppose that one year is required for adaptation to a scale of 20 units per month, but two years for adaptation to a scale of, say, 30 units per month. It may happen that in the second year some pure scientist, wholly unconcerned with the industry, makes a discovery which revolutionises its technique. Are we to take account of that discovery in drawing up our normal schedule (or function) of aggregate costs? If that schedule is to have logical coherence the answer is clear. It must mean the list of aggregate costs which would have been involved in producing such and such quantities of output after appropriate intervals of time, if no inventions (or other relevant changes) had taken place except such as are *consequent upon* the decision to produce the commodity on any given scale. The same point may be put more generally thus. All changes in costs that occur independently of variations in the scale of output of our commodity, variations, that is to say, which would have taken place even if that scale had remained unchanged, do not concern us. Thus, if a change of taste were to cause the bulk of good wheat land to be withdrawn from wheat and devoted to parsnips, so that, on the land left for wheat, more labour than before had to be spent to raise a given number of bushels, that change in labour cost would lie outside our province. Again, if general developments in industrial technique, banking and transport so operated that the real cost per unit of producing bicycles would diminish whatever quantity was being produced, that change also is irrelevant. We are concerned exclusively with variations in aggregate cost associated with and due to variations in the scale of output of our commodity. This restriction in the *quæsitum* may well prove embarrassing to anyone who is seeking to determine from statistics what the cost function for a commodity has been at some period in the past. But it is logically coherent; and to a person attempting to frame a cost function, so to speak, forwards, in reference to the future, it will be a help rather than a hindrance; for it lessens the range of his speculative survey.

3. The next step is to obtain a clear idea of what precisely, for the purposes of a cost function, costs should be taken to mean. If we were concerned with a commodity produced by labour alone and if all workpeople were exactly similar, it would be natural and proper to measure costs in terms of the quantity of labour employed. But in real life practically all commodities are produced by the joint operation of several different factors of

production, and it may well happen that the proportions in which these are severally employed are different for different scales of output. Hence some common unit is required by means of which a combination of, say, the use of so much labour, of so much capital and of so much land can be expressed in a single figure. There is no difficulty about this provided that, for the period relevant to our problem, the relative values of the several factors of production remain constant. Thus, suppose that throughout that period a units of factor A are worth b units of factor B and c units of factor C. Then, whatever combination of units is employed at successive points on the production scale, the total cost can always be expressed unambiguously in terms of units of A or of B or of C. In whatever terms it is expressed, the total cost, as between two quantities of output, will always be shown as varying in the same proportion. Thus, suppose that for 500 units of output we employ a units of A, b units of B and c units of C, and for 1000 units of output $2\ a$ units of A, $4\ b$ units of B and $\frac{1}{2}\ c$ units of C. Then, given that a units of A are throughout equal in value to b units of B and to c units of C, the change of cost in terms of A units is from $3\ a$ to $6\frac{1}{2}\ a$: in terms of B units from $3\ b$ to $6\frac{1}{2}\ b$; in terms of C units from $3\ c$ to $6\frac{1}{2}\ c$. There is thus no ambiguity about what variations of cost mean. If, however, the relative values of the several factors of production vary over the period of our problem, the case is otherwise. The variations in aggregate cost which correspond to given variations in aggregate output will be given differently according as we measure costs in terms of one or another factor. This is easily seen by reference to the preceding example. Let us suppose again that the cost of producing 500 units of output is a units of factor A *plus* b units of B *plus* c units of C, while that of producing 1000 units is $2\ a$ units of A *plus* $4\ b$ units of B *plus* $\frac{1}{2}\ c$ units of C. As before, let a units of A, b units of B and c units of C all have equal values where 500 units of output are being produced; but, where 1000 units of output are being produced, let a units of A be worth $\frac{3}{4}\ b$ units of B and $1\frac{1}{2}\ c$ units of C. Then, if we measure in terms of factor A, the aggregate cost of producing 1000 units of output is $\frac{23}{9}$ times that of producing 500 units: if we measure in terms of factor B, the corresponding figure is $\frac{23}{12}$: if in terms of factor C it is $\frac{23}{6}$. It is evident that this example merely illustrates a general rule; and that there is here a difficulty which must somehow be resolved.

4. Provided that no changes in the relative values of the diverse factors of production occur except such as are due to

causes external to the industry under review, the difficulty is not serious. If in the industry the period required from the present moment to make adjustment to various scales of production is nil, there is no difficulty at all. If the period for making adaptation is the same for all scales of production, say one year, we ought strictly, throughout our table of costs, to reckon the relative values of the several factors, not as they are now, but as they will be a year hence. If the periods of adaptation for different scales of output are different, one year for one scale, two years for a second and three years for a third, we ought to make our calculation with reference to relative values as they stand at some one point of time; but what point of time shall be chosen is a matter of arbitrary choice. Practically speaking, these adjustments cannot be made. We have to postulate that for periods relevant to our problem causes extraneous to the industry under review will not substantially alter the relative values of the several factors of production, and to make our calculations on the basis of the present state of those relative values. It is not likely that, by doing this, we shall fall into any serious error.

5. When, however, the conditions are such that changes in the relative values of factors of production are liable to occur in *consequence of changes in the scale of production of an industry*, there is no satisfactory way of measuring real costs in terms of a common unit. For suppose, as before, that, when 500 units of output are being produced, a units of factor **A**, b units of factor B and c units of factor C have equal values, but that, when 1000 units are being produced, a units of A, $\frac{3}{4}\,b$ units of B and $1\frac{1}{2}\,c$ units of C have equal values. There is no reason, in reckoning aggregate real costs, for preferring either of these relative valuations to the other. But, according as we choose the one or the other of them, the ratio between the aggregate cost of producing 500 units and 1000 units will appear entirely different. On the data of § 3, with the former valuation 1000 units will cost $2\frac{1}{6}$th times as much as 500 units: with the latter $2\frac{5}{9}$th times as much. With different data and different shifts of relative values, much more widely discrepant results would be obtained. It might easily happen, for example, that, while on one system of relative valuation 1000 units would appear to cost much more than twice as much as 500 units, which implies that the average cost per unit rises greatly as output grows, on the other system they would appear to cost less than twice as much, which implies that the average cost per unit falls as output grows. There would be no

real significance in the result whatever it might be; for its nature would depend, not upon the facts, but upon an arbitrary choice of technique. There is no way, whether on lines familiar to students of index-numbers or otherwise, by which the difficulty can be successfully overcome. I conclude, therefore, that, when changes in the relative value of factors of production are liable to occur in consequence of changes in the scale of production of an industry, it is not possible to assign a clear meaning to costs, and, therefore, is not possible to construct a costs function. Hence I am forced to confine my study to commodities which individually employ so small a proportion of each of the several factors of production that no practicable changes in the scale of their output could sensibly affect the relative values of these factors.

6. Having thus outlined the scope of our inquiry, we have next to study the costs function somewhat more closely. The fundamental concept from our point of view is that of an aggregate costs schedule; *i.e.* the series of aggregate costs that correspond, in the sense defined in § 1, to each several quantity of output. If y measures aggregate costs and x aggregate output, the fundamental function may be written $y = f(x)$. This function being given, it is easy to deduce from it, in respect of any commodity, two further functions, which may conveniently be named the average costs function and the marginal costs function. Average costs per unit being written Y_a and marginal costs Y_m, the two equations required are respectively—

$$(1)\quad Y_a = \frac{f(x)}{x}$$

$$(2)\quad Y_m = \frac{df(x)}{dx}$$

It is easy to see that, in conditions such that Y_a is constant for all values of x, Y_m is also constant and equal to Y_a for all values of x. But, if $\frac{f(x)}{x}$ is not constant for all values of x, Y_a and Y_m will, for most values of x, have different magnitudes. If the average costs curve slopes upwards or downwards throughout its length, the marginal costs curve will, throughout its length, slope in the same sense as the average costs curve: in other words, if $\frac{d\frac{f(x)}{x}}{dx}$ is positive (or negative) for all values of x, $\frac{d^2f(x)}{dx^2}$ will be positive (or negative) for all values of x. But, if the

average costs curve slopes upwards for some parts of its length and downwards for other parts, the marginal costs curve, though also sloping sometimes upwards and sometimes downwards, will have its turning-points opposite different values of x from those that face the turning-points of the average costs curve. Thus, if it is asked whether the production of a given commodity in respect of a given output obeys the law of increasing costs or the law of decreasing costs, the answer will sometimes be different according as these terms are used in reference to average costs or to marginal costs.[1] It is, therefore, desirable, wherever ambiguity is in any way possible, not to use these terms *simpliciter*, but to speak, as occasion may require, of increasing or decreasing average costs and of increasing or decreasing marginal costs. Since, when one of these sorts of costs is constant, the other must be constant also, the term constant costs may be used without risk of confusion.

7. Our first problem is to determine whether it is possible for the class of commodity here under review to display increasing costs. Since, *ex hypothesi*, an increase in the scale of output involves no change in the relative value of the several factors of production, there is nothing to prevent producers from meeting an enlarged demand by increasing the quantities of all the factors employed (including, of course, managing ability) in exactly equal proportions. But it is impossible to conceive of any way in which an addition of 10 per cent. to output could require an addition of more than 10 per cent. in the quantity of *all* the factors at work. Unless, however, other arrangements of factors involve less real cost than is involved in a 10 per cent. increase in each of them, the 10 per cent. increase of each of them will be the method which it pays producers to adopt. Hence, with this class of commodity, it is *impossible* for production anywhere to take place under conditions of increasing costs. In this matter my conclusion agrees with that reached by Professor Sraffa in his recent article.[2]

8. Professor Sraffa also maintains, however, that, under competitive conditions it is impossible, or at least extremely unlikely, that production will anywhere take place under conditions of

[1] The term increasing costs as used here is, of course, equivalent to diminishing returns, when that phrase is applied to the production of particular commodities (and not to the yield of a particular factor of production, other factors being assumed constant), and the term diminishing costs to increasing returns.

[2] "The Laws of Returns under Competitive Conditions," ECONOMIC JOURNAL, December 1926. Cf. also the fuller exposition of his views in the *Annali di Economia*, Vol. II. No. 1.

decreasing costs. He argues that decreasing costs can only result from the development, in consequence of an enlarged scale of output, of either internal or external economies. He admits that, where monopoly prevails, as, for example, in the provision of a railway service, internal economies may operate with sufficient force to evoke them. Under competitive conditions, however, internal economies cannot occur in a relevant manner, because, if they did, the equilibrium necessary to competitive conditions would disappear and monopoly would supervene. Hence there only remain external economies. These are admissible in point of logic; but, Professor Sraffa argues, as a matter of fact, the external economies of real life are almost wholly general in character, arising out of industrial progress as a whole, and not out of expansion in the scale of particular industries. It is, he asserts, highly improbable that a small increase in the scale of output of a single industry will lead to a growth of external economies sufficient appreciably to affect costs in that industry. This point of view is clearly important and calls for careful study.

9. We may conveniently consider first a monopolistic undertaking. Here it is agreed that large internal economies may easily manifest themselves. Two sorts of internal economy may be distinguished. First an enlargement in the scale of output may cause new methods of management to be introduced, which would yield no advantage if the scale were small, but substantial advantage if it were large. For example, increased specialisation in labour and in machinery and larger and more powerful tools may prove profitable; and effort may be made to invent technical improvements—inventions in the case of a monopoly are internal economies—which it would not have paid to think about in the day of small things. Where this class of internal economies plays a dominant part, the curves of average costs and of marginal costs will both move downwards towards the right by steady and fairly slow degrees. Secondly, in certain sorts of industry, the conditions are such that it is impossible to produce even one unit of output without incurring a very heavy cost for apparatus, but, when provision is made for supplying one unit, the addition to cost involved in the production of further units is relatively very small. Examples are the striking of medals, to provide even one of which a dye must be made; the production of a printed book; the service of transporting goods by rail between two distant places. It is not denied that, when a large output is being catered for, the apparatus will often need to be more

elaborate and costly than would be wanted for a small output. All that is postulated is that the cost of providing the minimum possible apparatus is very large relatively to the cost of using it in making a unit of the product proper to it. When this is so, the curve of average costs will slope downwards towards the right in a form approximating to that of a constant cost curve (rectangular hyperbola); and the curve of marginal costs will, for the first unit of output, show a cost equal to the whole cost of the apparatus, and will then drop very steeply to a very low level, at which it will continue to move towards the right more or less parallel to the base line. For example, we might suppose that to carry the "first" hundredweight of coal by rail from X to Y would cost £100,000, while to carry each subsequent hundredweight up to, say, 10 million would cost 6*d*. It will be noticed that in this example there is present, at all events up to 10 million units, decreasing average costs, but after the second unit constant marginal costs.

10. I turn next to those industries operating under conditions of competition, to which Professor Sraffa's argument directly applies. What he says about internal economies must be accepted. The representative firm must be conceived as one for which, under competitive conditions, there is, at each scale of aggregate output, a certain optimum size, trespass beyond which yields no further internal economies. The question we have to decide, therefore, is whether he is right in denying that external economies special to particular industries may be looked for in a measure adequate to establish conditions of decreasing costs. On the face of things it appears, in accordance with his contention, very improbable that a *small* increase in the scale of production of one industry should lead to any appreciable external economies, such as inventions, improved technique, increased specialisation among the makers of the machines used in the industry and so on. This appearance is, however, seen on closer reflection to be illusory. Nobody, of course, imagines that a small addition to the scale of output will lead to more than a small increase of external economies. What signifies, however, is not the absolute size of this increase. It is the ratio between this increase, expressed as a proportion of previously existing costs, and the increase of output, expressed as a proportion of previously existing output; and there is no reason why the ratio between two quantities which are both of the second order should not itself be of the first order. The point is easily illustrated. Imagine an industry so constituted that it can produce 100,000 units of commodity for £100,000 and 200,000 units for £175,000,

and that the fall in the marginal cost of production over this range takes place at a constant rate. Then it is easy to see that the cost of production of 100,001 units will be £100,000 *plus* $\frac{199,999}{200,000}$ths of a £, *i.e.* £100,000 19*s.* 11·9988*d.* Thus the external economies due to the addition of one unit of output to the original 100,000 units amounts to only ·0012 of a penny spread over the whole industry. This, looked at in itself, seems to be a negligible saving; but it is not really negligible. For, as the arithmetic of my example shows, if it is steadily maintained, a doubling in the scale of output involves a 12½ per cent. fall in average costs. It may, indeed, be suggested in reply that external economies are, in fact, introduced *per saltum*, in such wise that, while large increases in the scale on which a commodity is being produced may involve substantial economies, small increases involve no economies at all. There is, however, in my view, no ground for this opinion. There are many elements that go to make up external economies, and it seems reasonable to suppose that they will be called into play gradually as output increases, in much the same way that new purchasers are called into a market gradually as price falls. There will not be many persons who purchase more tobacco when the price falls by ¼*d.* an ounce; but, none the less, we do not expect to find tobacco sales absolutely constant until prices have fallen, say, by 2*d.* and then suddenly jumping forward. I hold then that the above line of argument in deprecation of external economics misses its aim. There is no reason to deny that increases in the scale of production of particular commodities may bring about external economies in the industries making those commodities sufficient to insure markedly decreasing average and marginal costs. This is all that an analytical study can tell us. To determine the actual content of any part of the cost function for any commodity would necessitate a very difficult combination of statistical research and intelligent guess-work, which might, indeed, even in skilful hands, fail to achieve success.

11. Up to this point I have refrained from using the term normal supply schedule. This term signifies the list of prices (representing real payments) which are required, time being allowed for necessary adjustments, to call out a regular output of various different amounts of a commodity. The normal supply schedule so conceived can, of course, be represented geometrically by a curve (the supply curve), or algebraically by a function (the supply function). We have now to determine the relation between it and the curves (or functions) of average costs and of marginal costs which were described in § 6. It is easy to see that, under conditions of private economy, a given

quantity of any commodity will never be offered for sale in a regular manner at a price per unit less than the average cost of production. Therefore, when for any commodity the marginal cost of any quantity of output is less than the average cost, the supply price will be equal, not to marginal cost, but to average cost. If we draw a marginal cost curve and an average cost curve, the supply curve will thus coincide with the average costs curve where this curve lies above the other. When either curve is inclined negatively throughout its length, the other, as was shown in § 6 must be so inclined also, and the average costs curve must everywhere stand higher than its companion. In this case—that of continuously decreasing costs—the supply curve will, therefore, coincide throughout with the average costs curve. Under constant costs the curves of average costs and of marginal costs are identical, and the supply curve will, therefore, coincide with both of them. As was argued in § 7, cases of increasing costs in the sense given to that term in this article do not occur.

12. One point only remains. In order to maximise satisfaction—inequalities of wealth among different people and so on being ignored—it is necessary, except in the special case where satisfaction is maximised by a nil output, for that quantity of output to be produced which makes demand price equal to marginal costs, *i.e.* which corresponds to the point of intersection of the demand curve and the curve of marginal costs. Exception must be made for the nil output case because conditions are conceivable in which the demand curve, coming from above, cuts the curve of marginal costs in respect of an output of a units and yet the aggregate satisfaction (as measured in money) due to the consumption of a units is less than the aggregate cost (as measured in money) due to the production of a units. In this case nil output is socially preferable to an output of a units. In all other cases satisfaction will be maximised by an output corresponding to the intersection of the demand curve and the curve of marginal costs. Output, however, *tends* to be carried to the point in respect of which the demand curve intersects with the supply curve. In conditions of constant costs—since, in these conditions, as was shown in § 11, the supply curve and the curve of marginal costs coincide—that will be the right point. But in conditions of decreasing costs, where the supply curve coincides with the curve of average costs, it will not be the right point. Unless the State intervenes by a bounty or in some other way, output will be carried *less far* than it is socially desirable that it should be carried.

A. C. PIGOU

THE COLWYN REPORT ON NATIONAL DEBT AND TAXATION

Report of the Committee on National Debt and Taxation. Cmd. 2800. 1927. 7*s*. 6*d*.

Appendices to the Report, 1927. 5*s*. 6*d*.

Minutes of Evidence. 2 vols. £1 10*s*.

THIS Report is, in the main, a vindication of the British system of taxation as it now is. Each tax in turn is considered, popular fallacies about each are dissipated, and the Committee conclude that all is for the best. In only two cases do they hesitate—the Sugar Duties and the Stamp Duties. They pick out the former—rightly, in my opinion—as probably the first national tax which ought to go. As regards the latter, they do not do more than express a hesitation, a doubt whether these duties may not slightly interfere in a way which does harm rather than good with the free mobility of capital. It is satisfactory, however, to see that the Committee are justly severe on the argument that, if the reduction of the duty on cheques from 2*d*. to 1*d*. were to increase their use at the expense of the note circulation, this would justify a reduction in the level of our normal gold reserves. For this is a popular fallacy which overpasses the limits of excusable error.

With this vindication of our Tax System most economists—especially in the light of the new statistical evidence with which the Committee support it—will, I think, concur. When we discuss or criticise the efficiency of Government and the ability of officials, we seldom do full justice to Somerset House, one of the best run and most useful institutions in the country, a remarkable creation of the British genius for administration. It is impossible to read the contributions to the proceedings of the Committee by Sir Richard Hopkins and Mr. W. H. Coates, of whom the latter is now unfortunately withdrawn into private business, and of the part obviously played in the preparation of the Report by the Committee's secretaries, Mr. G. R. Hamilton and Mr. G. Ismay, one of whom, however, is now, I think, with the Customs, without feeling that Somerset House understands its business.

The most important practical conclusion to be drawn from the vindication is that we are not, at the present time, beyond the limits of direct taxation as an efficient fiscal instrument, as many, not unnaturally, have supposed us to be. Our direct taxes are exceedingly unpleasant to the rich individuals on whom their full weight falls, and they probably have some unfavourable reactions on the national savings, since they transfer wealth from the class which is the most likely to save its surplus,—though even this objection will be mitigated if the Government, to whom the money is transferred in the first instance, itself saves it in some shape by directing it into productive channels. But apart from these consequences there is little or no evidence of the indirect harm which is often attributed to high income tax and death duties. As Professor Pigou put it in evidence, "from a distributional point of view, it would plainly be best to take nearly all your money from the rich people, but that might be so bad from a productive point of view that the poor people would in the end be damaged." It *might* be, and the rich always hope that it is. But the Committee conclude that, at present at least, it is not.

In particular the Committee endorse, practically without reserve, the unanimous opinion of the economists who gave evidence that income tax is not shifted and does not lead to higher prices to the consumer, as against the almost equally unanimous opinion of the business men to the contrary. The *data* at the disposal of Mr. Coates have enabled for the first time the *à priori* conclusion of the economists to be subjected to a statistical test —and the test whatever it may be worth is very interesting indeed —from which it emerges undamaged. The Committee "conclude that the broad economic argument" (that income tax is not shifted) "is true over practically the whole field and for practically the whole of the time, any exceptions being local or temporary and insufficient to invalidate it."

There are many other popular fallacies, put into circulation by those who suffer from high taxation, which, as I have said above, the Report seeks to disperse. There is no evidence that post-war income taxes have driven individuals or businesses abroad on a scale worth troubling about, or that death duties break up businesses through the strain of finding ready cash to meet them, though the troubles of landed proprietors are partly admitted. In short, the Committee have reached the unpopular conclusion that our taxation is not too high—from which it follows, though this they do not underline, that it would not be right to diminish

Relating Direct and Indirect

N.B.—The taxpayer is assumed to be married and

	Income Tax and				Total Direct Taxes.				
	wholly earned.	Income half earned half	Income half earned half			Income half earned half investment.			
1903-04									
50						8 0			16 0
100						1 5 0	14 3	14 0	1 2 0
150					4 6	2 2 6	15 0	14	1 6 0
200	1 16 8	1 16			2 4 2	4 13 2		15 0	1 8 0
500	16 0 10	16 0 10			17 5 10	23 6 10			1 18 0
1,000	45 16 8	45 16			48 16 8	65 2 8			2 1 0
2,000	91 13 4	91 13			96 8 4	129 2 4		15	9 0
5,000	229 3 4	229 3			238 3 4	341 14 4		15 0	2 16 0
10,000	458 6 8	458 6			473 6 8			15 0	2 16 0
20,000	916 13 4	916 13	519		944 13 4	1,494 2 4		15 0	2 16 0
50,000	2,291 13 4	2,291 13	1,607 5 0	55 0 0	2,346 13 4	3,953 18 4			2 16 0
								6 2	1 1 0
						1 5 0		7 2	1 10 0
						2 2 6		7 6	1 15 0
200								7 8	1 17 0
500		17 4						7 8	2 10 0
1,000		47 18	20 10 0	3 0 0	40 10	71 8		7 8	2 15 0
2,000		95 16	49 19 0	4 15 0	79 15	150 10		7 8	3 5 0
5,000	291 13	291 13	144 10 0	9 0 0	300 13	445 3		7 8	3 15 0
10,000	758 6	758 6	371 17 0	15 0 0	773 6	1,145 3		7 8	3 15 0
20,000	1,591 13	1,591 13	935 5 0	28 0 0	1,619 13	,554 18		7 8	3 15 0
50,000	4,091 13	4,091 13	2,588 4 0	55 0 0	4,146 13	,734 17		7 8	3 15 0
1918-19									
100	—	—						2 14	2 5
150	—	—	1 16 0		4 6	2 0 6	1 12	1	3 6
200	—	—	2 9 0		7 6	2 16 6	1 15		
500	33 15 0	43 2 6	7 6 0	1 5 0	35 0 0	51 13 6			
1,000	146 5 0	165 0 0	17 14 0	3 0 0	149 5 0	185 14 0			
2,000	450 0 0	487 10 0	42 19 0	4 15 0	454 15 0	535 4 0			
5,000	1,787 10 0	1,787 10 0	127 0 0	9 0 0	1,796 10 0	,923 10 0			
0,000	4,187 10 0	4,187 10 0	377 19 0	15 0 0	4,202 10	4,580 9 0		3 6 6	9 0 0
20,000	9,437 10 0	9,43, 10 0	933 0 0	28 0 0	9,465 10	,398 10 0		3 6 6	9 0 0
50,000	25,187 10 0	25,187 10 0	3,826 19 0	55 0 (	25,242 10 0	29,069 9 0		3 6 6	9 0 0
1923-24									
100	—	—	1 3 0	—	—	1 3		3 10 0	
150	—	—	1 15 0	—	—	1 15	1 2	4 3 0	
200	—	—	2 5 0	5 0	5 0	2 10	1 4	4 8	
500	15 3 9	18 0 0	6 17 0	12 6	15 16 3	25 9 6	1 4 0	4 12	
1,000	106 6 3	117 11 3	17 6 0	2 10 0	108 16 3	137 7 3	1 4 0	4 12	
2,000	308 16 3	331 6 3	49 15 0	4 15 0	313 11 3	385 16 3	1 4 0	4 12	6 15 0
5,000	1,346 6 3	1,346 6 3	205 14 0	9 0 0	1,355 6 3	1,561 0 3	1 4 0	4 12	7 10 0
10,000	3,571 6 3	3,571 6 3	592 0 0	15 0 0	3,586 6 3	4,178 6 3	1 4 0	4 12	9 13 0
20,000	8,321 6 3	8,321 6 3	1,808 9 0	28 0 0	8,349 6 3	10,157 15 3	1 4 0	4 12	
50,000	23,821 6 3	23,821 6 3	6,394 12 0	55 0 0	23,876 6 3	30,270 18 3	1 4 0	4 12 0	
1925-26									
100	—	—	1 2 0		—	1 2 0	11 0	1 17 6	2 15 0
150	—	—	1 14 0	Inhabited House Duty abolished by Finance Act, 1924.	—	1 14 0	12 0	2 3 9	4 0 0
200	—	—	2 5 0		—	2 5 0	12 9	2 5 3	4 15 0
500	10 3 4	14 6 8	6 15 0		10 3 4	21 1 8	12 9	2 7 6	5 0 0
1,000	81 3 4	97 16 8	17 3 0		81 3 4	114 19 8	12 9	2 7 6	6 15 0
2,000	264 10 0	281 3 4	64 18 0		264 10 0	346 1 4	12 9	2 7 6	7 10 0
5,000	1,095 15 0	1,095 15 0	316 3 0		1,095 15 0	1,411 18 0	12 9	2 7 6	9 13 0
10,000	2,995 15 0	2,995 15 0	890 17 0		2,995 15 0	3,886 12 0	12 9	2 7 6	10 4 0
20,000	7,370 15 0	7,370 15 0	2,253 18 0		7,370 15 0	9,624 13 0	12 9	2 7 6	10 4 0
50,000	22,120 15 0	22,120 15 0	6,621 18 0		22,120 15 0	28,742 13 0	12 9	2 7 6	10 4 0

Taxation to Specimen Incomes

to have three children under the age of sixteen.

Alcoholic Drinks.	Entertainments.	Cocoa, Coffee and Chicory, Dried Fruits, Patent Medicines and Table Waters.	Total Indirect Taxes.	Total Taxation.		Total Taxation: Percentage of Income					
				Income wholly earned.	Income half earned half investment.	Income wholly earned.			Income half earned half investment.		
						Direct.	Indirect	Total.	Direct	Indirect	Total.
£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.	%	%	%	%	%	%
2 5 0	—	1 0	4 7 0	4 7 0	4 15 0	—	8·7	8·7	0·8	8·7	9·5
3 0 0	—	2 0	5 12 3	5 12 3	6 17 3	—	5·6	5·6	1·2	5·6	6·8
3 10 0	—	3 0	6 8 6	6 13 0	8 11 0	0·2	4·3	4·5	1·4	4·3	5·7
4 5 0	—	4 0	7 7 0	9 11 2	12 0 2	1·1	3·7	4·8	2·3	3·7	6·0
5 5 0	—	4 0	8 17 0	26 2 10	32 3 10	3·5	1·8	5·3	4·7	1·8	6·5
8 0 0	—	4 0	11 15 0	60 11 8	76 17 8	4·9	1·2	6·1	6·6	1·2	7·8
14 10 0	—	4 0	18 13 0	115 1 4	147 15 4	4·8	0·9	5·7	6·5	0·9	7·4
29 0 0	—	4 0	33 10 0	271 13 4	375 4 4	4·8	0·7	5·5	6·8	0·7	7·5
29 0 0	—	4 0	33 10 0	506 16 8	758 13 8	4·7	0·3	5·0	7·3	0·3	7·6
29 0 0	—	4 0	33 10 0	978 3 4	1,527 12 4	4·7	0·2	4·9	7·5	0·2	7·7
29 0 0	—	4 0	33 10 0	2,380 3 4	3,987 8 4	4·7	0·1	4·8	7·9	0·1	8·0
2 0 0	—	1 0	4 0 5	4 0 5	4 8 5	—	8·0	8·0	0·8	8·0	8·8
2 15 0	—	2 0	5 7 6	5 7 6	6 12 6	—	5·4	5·4	1·2	5·4	6·6
3 5 0	—	3 0	6 4 8	6 9 2	8 7 2	0·2	4·2	4·4	1·4	4·2	5·6
4 0 0	—	4 0	7 2 10	7 17 10	10 10 0	0·4	3·6	4·0	1·7	3·6	5·3
5 0 0	—	4 0	8 15 10	22 0 10	35 8 0	2·6	1·8	4·4	5·3	1·8	7·1
7 10 0	—	4 0	11 10 10	52 0 10	82 19 2	4·0	1·2	5·2	7·1	1·2	8·3
13 10 0	—	4 0	18 0 10	97 15 10	168 11 6	4·0	0·9	4·9	7·5	0·9	8·4
27 10 0	—	4 0	32 10 10	333 4 2	477 14 2	6·0	0·7	6·7	8·9	0·7	9·6
27 10 0	—	4 0	32 10 10	805 17 6	1,177 14 6	7·7	0·3	8·0	11·5	0·3	11·8
27 10 0	—	4 0	32 10 10	1,652 4 2	2,587 9 2	8·1	0·2	8·3	12·8	0·2	13·0
27 10 0	—	4 0	32 10 10	4,179 4 2	6,767 8 2	8·3	0·1	8·4	13·5	0·1	13·6
2 15 0	5 6	10 0	9 17 6	9 17 6	11 1 6	—	9·9	9·9	1·2	9·9	11·1
4 5 0	7 0	11 6	13 2 6	13 7 0	15 3 0	0·2	8·8	9·0	1·4	8·8	10·2
5 5 0	7 6	14 0	15 9 0	15 16 6	18 5 6	0·2	7·7	7·9	1·4	7·7	9·1
5 0 0	11 6	15 0	15 17 0	50 17 0	67 10 6	7·0	3·2	10·2	10·3	3·2	13·5
7 10 0	17 0	15 0	20 3 6	169 8 6	205 17 6	14·9	2·0	16·9	18·6	2·0	20·6
11 15 0	1 10 0	15 0	25 14 6	480 9 6	560 18 6	22·7	1·3	24·0	26·8	1·3	28·1
20 0 0	2 0 0	15 0	35 19 6	1,832 9 6	1,959 9 6	35·9	0·7	36·6	38·5	0·7	39·2
36 0 0	2 10 0	15 0	53 6 6	4,255 16 6	4,633 15 6	42·0	0·5	42·6	45·8	0·5	46·3
36 0 0	2 10 0	15 0	53 6 6	9,518 16 6	10,451 16 6	47·3	0·3	47·6	52·0	0·3	52·3
36 0 0	2 10 0	15 0	53 6 6	25,295 16 6	29,122 15 6	50·5	0·1	50·6	55·1	0·1	58·2
6 0 0	7 6	8 3	14 1 9	14 1 9	15 4 9	—	14·1	14·1	1·2	14·1	15·3
10 0 0	9 0	9 0	20 3 8	20 3 8	21 18 8	—	13·5	13·5	1·2	13·5	14·7
12 0 0	10 0	9 9	23 6 9	23 11 9	25 16 9	0·1	11·7	11·8	1·2	11·7	12·9
12 0 0	14 0	10 6	24 0 6	39 16 9	49 10 0	3·2	4·8	5·0	5·1	4·8	9·9
18 0 0	1 0 0	10 6	32 1 6	140 17 9	169 8 9	10·9	3·2	14·1	13·7	3·2	16·9
28 0 0	1 12 0	10 6	43 8 6	356 19 9	429 4 9	15·7	2·2	17·9	19·3	2·2	21·5
50 0 0	2 5 0	10 6	68 4 6	1,423 10 9	1,629 4 9	27·1	1·4	28·5	31·2	1·4	32·6
100 0 0	2 15 0	10 6	119 5 6	3,705 11 9	4,297 11 9	35·9	1·2	37·1	41·8	1·2	43·0
100 0 0	2 15 0	10 6	119 5 6	8,468 11 9	10,277 0 9	41·7	0·6	42·3	50·8	0·6	51·4
100 0 0	2 15 0	10 6	119 5 6	23,995 11 9	30,390 3 9	47·8	0·2	48·0	60·5	0·2	60·7
6 5 0	3 0	6 0	11 17 6	11 17 6	12 19 6	—	11·9	11·9	1·1	11·9	13·0
10 3 0	4 0	6 6	17 9 3	17 9 3	19 3 3	—	11·6	11·6	1·1	11·6	12·7
12 3 0	5 0	6 9	20 7 9	20 7 9	22 12 9	—	10·2	10·2	1·1	10·2	11·3
12 0 0	12 0	6 9	20 19 0	31 2 4	42 0 8	2·0	4·2	6·2	4·2	4·2	8·4
18 0 0	1 0 0	6 9	29 2 0	110 5 4	144 1 8	8·1	2·9	11·0	11·5	2·9	14·4
28 0 0	1 12 0	6 9	40 9 0	304 19 0	386 10 4	13·2	2·0	15·2	17·3	2·0	19·3
50 0 0	2 5 0	6 9	65 5 0	1,161 0 0	1,477 3 0	21·9	1·3	23·2	28·2	1·3	29·5
105 0 0	2 15 0	6 9	121 6 0	3,117 1 0	4,007 18 0	30·0	1·2	31·2	38·9	1·2	40·1
105 0 0	2 15 0	6 9	121 6 0	7,492 1 0	9,745 19 0	36·9	0·6	37·5	48·1	0·6	48·7
105 0 0	2 15 0	6 9	121 6 0	22,242 1 0	28,863 19 0	44·2	0·2	44·4	57·5	0·2	57·7

admittedly useful expenditure, on such things as education and social insurance and health services, merely in order to reduce it.

The Committee's final summing-up is worth quoting:

> The burden of direct taxation, while we do not wish to belittle it, is less crushing than is frequently represented. It does not, with trivial exceptions, enter directly into prices, and its indirect effects are not such as substantially to affect the general price-level. It has a materially adverse effect on savings, but this does not hold good so far as the receipts are applied to payments on account of the internal debt. Again, it has widely diffused psychological effects, and has been responsible for a good deal of discouragement, while trade has been suffering from long-drawn-out depression due to wider causes; on the other hand, some of the psychological effects have been actually beneficial. In our opinion the present taxation—even in conjunction with the loss of material wealth due to war expenditure, which lies behind the National Debt—is not one of the main causes of industrial difficulty. . . . So far as taxation is concerned, we think that, if general conditions improve and times become more prosperous, the burden will be carried with comparative ease. We base our conclusions, not on preconceptions, but on the long analysis contained in the foregoing part of our Report, in the light of which they must stand examination. We may perhaps remark that the view which we take is more optimistic than the view which attributes to taxation a very large responsibility for the present industrial position; for, while there is little prospect of any great lightening of the tax burden in the early future, there is legitimate hope that in many respects more general conditions, both at home and abroad, may improve.

There is one interesting anomaly in the distribution of the burden of taxation which emerges from the Committee's inquiry, but to which they do not invite particular attention. The Committee have endeavoured to calculate for various years the percentage of his income which a normal member of each income-range class pays in direct and indirect taxation taken together. The table is of such very great interest that I reproduce it in full on pp. 200–1. From this it appears that recent concessions to small income-tax payers have had the effect of bringing down the aggregate taxation paid by those with incomes in the neighbourhood of £500 to a much lower percentage of their income than is paid either by those who are somewhat poorer or by those who are somewhat richer than themselves. Whereas a man with an earned income of less than £200 or more than £1,000 pays in taxation at least 10 to 11 per cent. of his income, the man with an earned income of £500 pays only 6·2 per cent. The anomaly has always existed to a certain extent, but recent tax-changes have increased it.

As regards the taxation of the very rich, the Committee make clear how advanced this now is by estimating what annual insurance premium would have to be paid in order to defray the Death Duties. For example, a man with £1,000,000 invested at

5 per cent., who wishes to leave his million intact for his heirs, has to pay away altogether about £36,000 from his nominal income of £50,000, leaving him with £14,000 per annum for himself. The number of millionaires in Great Britain would seem, by the way, to be of the order of 250, and the number of those with more than £50,000 a year somewhat more than 500. This strikes one as rather small compared with the army of nearly 9,000 individuals who admit to having an income of more than £10,000 a year. Nearly 30 per cent. of the income of the very rich comes from directors' fees and other so-called earned income. It is obviously now almost impossible to become a millionaire except by means of increments of wealth which in one way or another escape tax.

The Committee follow Mr. Coates in estimating the national savings (in 1924) at £500,000,000 per annum, which, allowing for the change in the value of money, is, they think, about £150,000,000 less than the corresponding figure before the war. This is very near to the estimate of Professor Bowley and Sir J. Stamp for the same year, namely, £475,000,000. Mr. Coates, who claimed that his aggregate was correct within 10 per cent., explained that the details of it were made up as follows:

	£ millions.
Internal new issues for investment in the United Kingdom	89
Internal new issues for investment abroad	135
Addition to National Savings Certificates	3
Increase in Treasury holdings of Bonds tendered in payment of Death Duties	9
Investments sold by the banks	35
New houses	35
Profits not distributed by companies and private traders but invested in own businesses; and miscellaneous	194

This is a net addition after allowing for the depreciation of obsolescent goods, and it does not include such things as house furnishings. The figure is a very considerable one. The national wealth at the present time, so far as it can be measured in money, probably does not exceed £24,000,000,000; so that, on the above computation, it is increasing at about 2 per cent. per annum, at which rate it will have increased by 50 per cent. within twenty years from now. During the same period the increase of the population is not expected to exceed 5 to 8 per cent. Thus we have a prospect of abundant resources available for new housing and new public utilities, if only we can learn how to absorb and employ them.

The most interesting item in Mr. Coates' table, and possibly the most accurate, since it is based on definite figures in the hands of Somerset House, is the amount retained in the business by companies and private traders, namely, £194,000,000. I should like to add that, whilst his total is very likely about right, the logic of the table is open to criticism. Having rightly excluded the amount devoted to the Sinking Fund, since this releases resources for investment under his other headings, why does Mr. Coates include the addition to National Savings Certificates and the Bonds tendered for Death Duties? The correct addition in respect of the activities of the Exchequer seems to me to consist in the amount of productive capital expenditure by the State not covered by his heading of "internal new issues."

Mr. Layton's estimate (August 1924) as to who holds the internal National Debt emphasises the above conclusion as to the importance of the activities on capital account of institutions as distinguished from individuals:

	£ millions.
British Joint Stock Banks and Foreign Banks with offices in London (including an estimate of £100 millions of Treasury Bills)	750
Bank of England	70
Post Office Savings Bank (£285 millions less £120 millions in guaranteed or other securities not forming part of the dead-weight debt) and Trustee Savings Bank (£80 millions, less £30 millions)	215
Government Securities purchased for depositors through the Savings Banks (£210 millions) and Trustee Savings Banks (£30 millions)	240
Treasury Note Reserve	240
Ways and Means Advances (Public Departments, £160 millions, less amount included under Treasury Note Reserve), say	70
Insurance Companies, approximately	350
Railway Companies	80
Add to preceding items to bring to par value	277
Balance of Treasury Bills not included above, and held by various concerns, bill brokers, and others needing liquid resources, largely as part of the floating money system of the country	300
Held by private persons liable to Estate Duty	2,350
Held by foreigners, trusts, charities, trade unions, joint stock companies, etc.	1,650
	6,592

Before we leave the statistical material of the Committee's Report, Mr. Coates' very interesting estimate of rates of profit on turn-over, given in his Memorandum on "Incidence of the Income Tax," printed in the volume of Appendices, must be

mentioned. Mr. Coates points out that calculations of rates of profit on turn-over are particularly valuable for comparative purposes between different dates and different industries because they are free from the difficulties of capital valuation and of changes in the value of money. His results can be summarised as follows:

Industrial Group.	Average rate of profit per cent. of turn-over. 1912–13.	1922–23.
Cotton . . .	7·00	2·47
Wool . . .	8·19	9·78
Iron and Steel .	7·49	7·74
Miscellaneous Metal Industries	6·10	5·22
Food . . .	5·07	7·11
Wholesale Distribution	3·90	4·14
Retail Distribution	8·48	5·14
Average of the seven groups	5·80	5·43

Whilst the reader will do well to consult the original for the details, the essence of the results is given above. Mr. Coates analyses elaborately the dispersion round the median and the mean, showing that the median is, in general, somewhat below the mean, being for the seven groups 4·61 in 1912–13 and 4·11 in 1922–23. The main additional point which emerges from this analysis is the *magnitude* of the dispersion, which is so considerable as to do some damage to the conception of the Representative Firm. The figures for the seven groups taken together are as follows:

	Median.	Lower quartile.	Upper quartile.	Mean deviation from Median.
1912–13	4·61	2·53	7·67	3·59
1922–23	4·11	1·24	8·46	6·01

Thus whilst profit on turn-over is, on the average, much what it was, it is decidedly more irregular than before the war as between one business and another. The unprofitableness of the Cotton Industry since the war is brought out very strikingly.

These results have been made possible by the large number of detailed accounts now available in the hands of the Inland Revenue Department. "The number of accounts furnished

voluntarily," Mr. Coates tells us, "now approaches a quarter of a million." Of what incomparable value to economic study and to the science and practice of administration the continuous analysis of this material and publication of the results would be. With but a little development the Statistical Department of Somerset House could furnish us with a continuous census of production and curve of profit for the whole of British industry. Hundreds of thousands of pounds spent on this embryo department would be well spent. As it is, we have an occasional tit-bit of information thrown us in an appendix to a Report on another subject by a gentleman who is no longer an official. I suspect that the scandals of economy are far greater and far more permanently injurious to the public good than the scandals of extravagance ever were.

Upon two main sections of the Committee's field of inquiry I have not yet touched,—the Capital Levy and the Sinking Fund.

The Committee have dealt with the former in a most judicious manner—obviously aiming at, though not reaching, a unanimous Report. They admit no objections to a Capital Levy on grounds of general principle. They accept a memorandum from Somerset House in which "the Board of Inland Revenue, while they view the levy as a task of the first magnitude, do not regard the inherent difficulties as too great to be overcome." They indicate that at the right time and in the right circumstances, which may have existed immediately after the war, they would support a levy. But they reject it on the ground of its disappointing yield in terms of its net results in return for what would undoubtedly involve a very considerable psychological and business upset. Finally, they attach great importance to the extent of the public support for such a project. The Board of Inland Revenue, at the same time that they admit the practicability of a levy, "illustrate by reference to the success of the Excess Profits Duty and the failure of the Land Values Duties the primary importance of the attitude of the taxpayer to any large scheme of new taxation. They point out very forcibly the dangers that might befall the administration of a levy, either if there were systematic obstruction or if there were widespread anxiety."

The number of individuals with a capital of more than £1,000 is estimated at 1,500,000; of those with more than £2,500 at 900,000; and of those with more than £5,000 at 500,000. The scale of levy suggested by the Labour Party, which exempts estates below £5,000 and takes proportions ranging from 5 per cent. to 60 per cent. on the rest, would probably yield about

£2,500 millions. A levy which would yield £3,000 millions was the most drastic which received support in any quarter.

Now what would this be worth to the Treasury after allowing for loss of revenue from income tax, super-tax and death duties? These necessary reductions bring down the budgetary benefit from a gross figure of £150,000,000 (allowing interest at 5 per cent.) to a net figure of £60,000,000. It is the magnitude of this reduction from the gross saving to the net which has taken most people by surprise. This net figure of £60,000,000 is equal to about 1*s*. on the income tax. Most people will agree with the Committee, I think, that—at least when income tax is not above 4*s*. in the £—it would be wiser for a Chancellor of the Exchequer to put 1*s*. on the income tax than to attempt to impose a Capital Levy on an exceedingly drastic scale.

The illusions under which many of us have rested in the past as to the possibilities of a Capital Levy are a special case of a general tendency to exaggerate the importance of the National Capital as compared with the National Income. The former, even if we include in it the whole of the land and natural resources of the country, is not above six years' purchase of the latter. Capitalists and Socialists suffer equally from these illusions as to the importance of the existing stock of wealth. It is the flow of current income and current savings which truly matters.

Throughout their Report the Committee turn down every single one of the bright ideas submitted to them both by the present writer and by others. Quite likely they are right to do so. Bright ideas within the realm of taxation are seldom worth while. There is nothing to be done wisely except to raise all you can in straightforward direct taxation and the balance from luxuries and drugs in wide, general use. I do not dissent, therefore, from the negative attitude towards change of the greater part of the Report. It is only when the Committee come to their own bright ideas, their sole constructive proposals, which centre round the Sinking Fund, that I find them speaking with a real want of wisdom.

At present the standard rate of the Sinking Fund is £50,000,000 per annum, though for reasons pointed out by the Committee this is not generally equivalent to more than about £40,000,000 net reduction of debt. They propose that this amount should be raised immediately to £75,000,000 per annum, and as soon as possible to £100,000,000. The Minority Report goes further and recommends £150,000,000. Finally, Professor Hall, in a Report of his own, raises it to the equivalent of £300,000,000. To

aim at a Sinking Fund of £40,000,000 per annum or thereabouts can, I think, be justified on grounds of prudent budgeting. This represents about 5 per cent. of the total budget, and a margin of this amount can be defended on the ground of being on the safe side one year with another, and having some surplus to meet contingencies. Any figure in excess of this, however, can only be justified on the ground of the importance of reducing the National Debt as quickly as we can. In what follows, therefore, I shall, in order to make the argument concrete, be comparing a Sinking Fund of £100,000,000 per annum with one of £40,000,000. The difference between the two, namely, £60,000,000, happens, as we have seen above, to represent 1s. on the income tax.

The Committee do not elaborate any adequate philosophy of the National Debt. Doubtless they would not dispute that it is not a question of the amount of the national wealth but solely of its distribution. We should not be a penny the richer, either for waging war or for social reform, if, like Germany, we had practically no internal debt. If "paying off the debt" really made us richer, the case for a Capital Levy would, of course, be overwhelming. In fact, however, it is simply a question of the distribution of the current national income between individuals, and of the tax instrument as a factor in modifying this distribution. Now the effect of heavy taxes in modern conditions is generally in the direction of bringing about a more equal distribution of income. The Committee in fact show that the effect of high post-war taxation has been somewhat in this direction. For this reason the "capitalist"—to use a convenient abbreviation—is apt to be opposed to high taxation, and the "socialist" to be in favour of it. Nevertheless it is not easy to argue *à priori* from this what their respective attitudes to a heavy Sinking Fund will be. For the immediate effect of a heavy Sinking Fund is to aggravate the burden of taxation, whilst the manner in which the eventual release of budgetary resources will be employed, say twenty years hence, is problematical. *A posteriori*, it seems, the capitalist is disposed to favour a heavy Sinking Fund, partly out of his ingrained habits of "prudence" and of preferring the possibility of future benefits to the certainty of present ones, and partly out of a feeling that a stiff Sinking Fund at any rate locks away for the time being available budgetary resources from being spent on the doubtful boons of so-called social reforms; whilst the socialist also favours one, partly because he looks forward to using later on the budgetary resources which will be thus released, and partly because, by mere confusion of thought, he thinks that the

£1,000,000 daily interest on the National Debt is in some sense "paid away to the rich" in a way in which it would not be if the Debt is gradually paid off. Both parties are reinforced by the good and the virtuous who, out of false analogy with private debts, "feel that it must always be a sound thing to pay off debt"; so that the economist, who asks in an intellectual spirit what after all is the object, is left lonely.

The weakness of the Committee's treatment of the question is to be found in its being based neither on psychological and political grounds nor, on the other hand, on scientific grounds. An additional annual burden on the Budget of £60,000,000 is a very important one. It is far in excess of any possible economies, other than from drastic disarmament. It is three times the Sugar Duty; it is nearly half of the total yield of rates throughout the country. If we have £60,000,000 per annum available either from an increased yield of the existing taxes or from unobjectionable new taxes, there are many things of great public advantage which we could do with the money. If the local rates throughout the country were half what they are now, would anyone seriously propose to double them, in order to increase the Sinking Fund from £40,000,000 to £100,000,000? It is odd to find all parties agreeing that a large Sinking Fund has the first claim, that it is to be preferred, in the words of the Committee, to any other "new expenditure of whatever nature,"—unless it be for very strong reasons. Yet the only arguments which the Committee adduce are of the flimsiest description.

They are two in number. The first is to pave the way for future conversion operations by reducing the rate of interest on Government loans. The second is to provide against "the possibility of a future national emergency." I say that these reasons are flimsy because the possible benefit from the first is quantitatively very small, and because the second supposed advantage is mainly based on a fallacy.

As regards the first, the Committee have been at pains in a previous section of their Report to show that the supposed savings to be obtained from conversions over the next twenty years are much smaller than is commonly supposed. Apart from this, the extent to which the yield on British Government stocks can be divorced from the world gilt-edged rate of interest is comparatively small—at any rate until the aggregate of the British debt has been reduced to so low a figure, as, for example, it was at before the Boer War, or as that at which the United States debt now stands, that it has a scarcity value for investors who for various special

reasons cannot look elsewhere, a result which could not be achieved even with a Sinking Fund of £100,000,000 per annum for a great number of years to come. Whilst we can possibly look forward to more important savings as the result of a fall in the world rate of interest, a reduction of ½ per cent. in our rate below the world rate as the result of a heavy Sinking Fund, which is probably the utmost we could achieve in that way, would effect a saving of only £11,000,000 per annum in the course of more than twenty years. Even this would not affect the amount of the national wealth, but only the budget problem.

As regards the capacity to wage a future war, this will depend on the flow of national income at the time and on our ability to make the whole of the surplus available by taxation, by the commandeering of resources and in other ways. It is hardly to be supposed that our policy of largely depending on loans adopted in the late war will be repeated in the next one; and even if it is, the difference between a large and a very large internal debt should make a scarcely appreciable difference. It is not as if the sums paid off over the twenty years will lie by, so to speak, ready to be re-borrowed when they are needed. They will have been used like the past flow of other resources, and nothing will be available at the time except the current flow of resources.

What then would constitute good grounds for a large Sinking Fund? I see three important reasons which might carry weight in different circumstances. In the first place, the savings of individuals might be inadequate to the national needs, so that it would be necessary for some saving to be effected through the agency of the Treasury. A compulsory transfer of resources by means of taxation from individuals to the State and the employment of the proceeds on reduction of debt might be the best way of bringing this about. A variant of this state of affairs would exist if large capital expenditures were being made on great public utilities in excess of what could be borrowed from investors at a reasonable rate. A large Sinking Fund, of which the proceeds were devoted to productive expenditure, thus gradually converting the dead-weight debt into a productive debt, might be a sound policy in such circumstances. The Committee, however, do not argue that either of these conditions exist at the present moment. For my part, I should like to see increased capital expenditure on public utilities; and if this policy were adopted, I would support a larger Sinking Fund, but not meanwhile.

A third reason for hastening the repayment of the National Debt might be based on the expectation that the future burden of £x on the taxpayers is likely to be heavier than a present burden of £x. Is this in fact likely? I should have thought that the opposite is far more likely. As stated above, the expectations appear to be in favour of an increase in national wealth of 50 per cent. and in population of 5 to 8 per cent. in the next twenty years. With normal progress of scientific invention and business and economic technique, it is not very optimistic to expect the yield of our present taxes to increase by 1 per cent. per annum on the average. If this is so—and would not most people agree that it is?—is there any case for burdening the present generation of taxpayers or in postponing useful expenditure in the supposed interest of those to come? The Committee do not anywhere meet the point that, if heavy taxation is the evil to be remedied, a Sinking Fund aggravates this evil for many years to come, and the eventual benefit will only accrue at a time when it will be worth less than it is worth now.

The prospect of falling prices as a reason for paying off the debt quickly is considered by the Committee and dismissed. But they have not thought it worth while to mention the increase in the burden of the National Debt, which occurred whilst they were sitting, as a result of the return to gold—preferring to cast a decent oblivion over the consequences of that act.

If the burden of the internal National Debt is a matter of great importance, the lightening of which is worth serious sacrifices and inconveniences, the history of this burden as affected by price changes deserves more attention than the Committee have given it. (The point is more stressed, however, in the Minority Report.) The following calculation, worked out by the present writer, is based on some figures given by the Committee in their Appendix XXVI. The Committee's figures are based on the *Statist* index-number. This is not the most suitable for the purpose, but it will give a sufficiently accurate general idea of what has been happening. We raised between the beginning of the war and March 31, 1920, an internal debt of £5,900 millions at an average price-level of 202. The nominal total has not been reduced by any significant amount since that time. By March 31, 1925, the price-level had fallen to 165; and at the end of 1926 it stood at 146. Thus the burden of the war-debt in terms of war-£s (*i.e.* at a price-level of 202) has been as follows:

	Index-number.	Debt in terms of war-£s (millions).
Average price at which war-debt was raised	202	5,900
Its burden at March 31, 1920 . . .	308	3,900
" " March 31, 1925 . . .	165	7,200
" " Dec. 31, 1926 . . .	146	8,100

Thus a Sinking Fund of £100,000,000 per annum for twenty years will only succeed, assuming no further change in the price-level, in bringing the real burden of the debt back to where it was in 1920. More than a third of the burden of what is now owed in respect of the war-debt is due not to the expenses of the war, but to the fall of prices since this debt was incurred. The further fall of prices since the return to gold has added many hundreds of millions to the burden of the debt. Sinking Funds of even £100,000,000 a year are neither here nor there whilst this sort of thing is going on. But, as I have said above, this is a subject on which the Committee have thought it better to preserve a discreet silence.

Whilst, however, I dissent from the Committee's pious ejaculations in favour of Sinking Funds, I feel, as perhaps they did, that there is not the same harm in these ejaculations as there would be if there were the slightest chance of their being followed up by action. There is no subject more academic (in the misused sense of that word) than Sinking Funds; nor any serious risk in practice of Sinking Funds being excessively indulged in. Perhaps the Committee felt that only by talking about a Sinking Fund of £100,000,000 shall we induce Chancellors of the Exchequer to keep any margin at all on the right side.

The Minority Report is not a very helpful document. It is not clear that the Minority differed from the Majority on the merits of any question to an extent which could not have been put right by footnotes. But the signatories were evidently anxious not to commit themselves too precisely in black and white. Their only definite proposal consists of an addition of 2*s*. in the £ to the tax on investment income, the proceeds to be applied to the reduction of debt.

J. M. KEYNES

LABOUR PROBLEMS IN THE AMERICAN BITUMINOUS COAL INDUSTRY

ECONOMISTS and sociologists who have specialised in the study of labour problems have customarily proceeded along either of two somewhat divergent lines. The earlier economists conceived their task in terms of the particular interests of the weaker group in our industrial society. The interests of the labouring group have frequently been found to conflict with those of the employing group, and a solution of labour problems conceived in terms of such conflict has involved a give and take, a certain delicacy of adjustment, a readiness for compromise, conciliation and arbitration, the formulation of principles and rules, the development of standards by means of which the relative merits of conflicting claims might be adjudicated and temporary stability in industry be established. Labour problems thus viewed have been comprehended in such terms as collective bargaining, joint agreements, legality of trade unions, the right to strike, the closed shop, compulsory investigation, and a multiplicity of similar categories.

During the run of time, however, there has been a shift in the point of approach. Labour economists have come to realise that the economic perplexities of the labouring classes have not always, nor perhaps generally, resulted wholly from the caprice or whims of the employing groups. Rather both the employers and the employees have found themselves periodically victimised by the vagaries of a competitive economy. Industrial prosperity with its concomitant credit inflation and over-expansion of business has been followed inevitably by periods of depression; and unemployment—perhaps the chief menace to the labourer's economic security—has been a necessary by-product of modern credit economy. The newer approach has been more objective in its method. Labour problems approached from this latter point of view have been comprehended in terms of basic defects in our industrial and business structure and a remedy has involved some sort of structural modification and group control.

As the shift in emphasis has been made, the old point of approach has not been entirely discarded; rather, it has been supplemented by the new—and the two have together contributed

something towards an understanding of the ills of the labouring class. It must be admitted that labour problems have been greatly complicated by the persistent and uncompromising endeavour of employers to secure the greatest pecuniary return possible, and likewise that they have been complicated by the cultural circumstances of a competitive society and a machine technology. Both the earlier and the later approach to labour problems, however, have proven inadequate to a solution of these problems. Neither the philanthropic endeavour of the reformist directed along somewhat personal channels nor the more objective method of the later economists directed in the broader channels of group activity and cultural control have met with more than a modicum of success.

Quite recently there has been manifest yet another approach to labour problems. There is a growing tendency to treat labour problems neither as matters of abstract justice nor in terms of mass movements, but rather as specific problems arising from the organisation and administration of particular industries, as engineering problems of industrial organisation. Such an approach to labour problems in the coal industry promises a more complete understanding of the real nature of the problem than has generally been attained.

It is the purpose of this paper to analyse briefly labour problems in the bituminous coal industry from this point of view. The paper in the main offers merely a statement of the case. It may be assumed at the outset without distortion of the facts that the major labour problem in the coal industry during the past has been that of chronic under-employment.[1] This, of course, is generally recognised. It may be admitted that the mine workers frequently live in squalid conditions, poorly housed, in areas remote from population centres, without adequate sanitation facilities, and with a minimum of comfort, and that they customarily work under unusually hazardous conditions. It is likewise true that the wage scale frequently falls below a level essential for a decent livelihood according to accepted American standards. These ills, however, are to a considerable extent symptomatic of a more fundamental infirmity. They

[1] It should be noted that the discussion is not concerned with the situation in the anthracite coal industry. The situation in anthracite is similar in certain respects to that in the bituminous industry. Mine capacity, however, has been under more centralised control, and unemployment has not been so acute. The discussion herein applies exclusively to the bituminous industry, the more important of the two. Production of bituminous coal in the United States in 1925 totalled 520,052,000 tons, whereas production of anthracite coal totalled only 61,817,000 tons.

are in part a reflection of the sheer inability of an over-expanded industry, operating as it does on a part-time basis, to do better than it does. Even the problem of unionisation, the yellow-dog contract [1] and the check-off are intimately related to the problem of full-time operation. And full-time operation in the bituminous coal industry, or the elimination of chronic under-employment, is essentially a problem of the organisation and control of that particular industry.

The facts of unemployment are so well known as to justify only a passing reference. From 1890 to 1923 the number of workers in the bituminous coal industry increased from 192,000 to 702,000. Mine capacity during the same period increased from 152,000,000 tons to 971,000,000. The coal actually mined, however, increased only from a minimum of 111,000,000 in 1890 to a maximum of 579,000,000 in 1918. Despite the tremendous expansion which the industry has experienced (or more properly because of it) the workers in the fields have never averaged more than 234 days worked per year out of a possible 308 working days. The average number of days worked per year throughout the entire period has been but 214, while during the year of industrial depression, 1921, the low record of 149 days was established.

This chronic state of under-employment results in large part from the fact that the coal industry has suffered continuously from over-expansion throughout the history of its existence. This again is generally recognised. There does exist, however, considerable difference of opinion concerning the basic causes of over-expansion. Simply stated, the trouble seems to have had its origin in a maladjustment between the physical conditions under which coal has been found in nature and the rules of the game under which exploitation has been carried on. Nature has endowed the United States abundantly in so far as its coal supplies are concerned. Coal deposits have been found in all but ten states of the Union, and coal has been mined on a commercial basis in thirty-one states. It occurs underground under a great variety of conditions: in beds ranging from a fraction of an inch in thickness to enormous deposits more than two hundred feet thick; in solid seams and in seams divided by

[1] Yellow-dog contract is a term applied to individual contracts entered into by non-union operators with their employees, under the terms of which the employee agrees that he is not a member of the Union and that he will not join any such organisation while he is in the employ of the company. The yellow-dog, or individual, contracts have been used as a basis for securing injunctions against attempts to organise non-union fields by any means whatsoever.

clay, shale or slate; in continuous layers and in layers interrupted by foreign bodies; in steeply inclined planes and in planes approaching the horizontal; in shallow beds at or near the surface, and in beds thousands of feet below the earth's crust; in beds overlain by an impervious stable structure, and in beds overlain by a porous stratum subject to caving as the coal is mined; near population centres, and in regions remote. These are the salient facts in the geology of coal, significant to the beginnings of the trouble of over-expansion. They are physical facts; and, therefore, not readily subject to change.

What of the rules of the game? Coal resources are privately owned. Their time, rate and manner of exploitation have been left to the control of those competitive forces which have guided modern industrial society in the large. The invisible hand has had full sway. Coal has been a competitive enterprise, unimpeded even by such a modicum of state control as has been instituted in the railway industry. Mining has customarily been carried on by the business men who have owned coal lands or who have leased them from private owners on a royalty basis. Coal mining, despite the tremendous energy it consumes in the mining process, has retained almost unmodified until the very recent past the handicraft characteristics which it manifested one hundred and fifty years ago as it ushered in the Industrial Revolution. By a curious anomaly that industry which played the premier rôle in the inauguration of those changes by means of which modern production has been mechanised, has itself resisted tenaciously conquest by the machine, and it has remained to an amazing extent the simple handicraft which gave birth to the coal industry. Coal mining throughout the history of its existence has been in the main a pick and shovel proposition. The resistance of coal to the introduction of machine processes, together with its widespread occurrence, has made it relatively easy for the little business man with a surplus of initiative but with a small capital reserve to enter upon the production of coal. This situation, coupled with the seasonal peak in prices, accounts for the beginning of the problem of over-expansion. Business men in large numbers have entered into the production of coal during those temporary periods when coal mining seemed likely to prove profitable. Many of the mines opened have been of the "snowbird" or "fly-by-night" variety, and the birds have flown to parts distant during seasons of industrial hardship and rigour. They have flown away, however, only to return during the feeding seasons of heightened coal demand.

They have served thereby continuously to aggravate the problem of stabilisation in the coal industry; but more serious than these "fly-by-nights," which, after all, have contributed but a small percentage of the total output, has been the continuous presence of mines opened during similar periods of peak demand but operating on a somewhat larger scale with a capital investment sufficiently large to make abandonment financially difficult. The widespread occurrence of coal under conditions of easy access has made entrance into the coal industry simple. It has likewise made difficult combination and concentration of control. Unrestricted competition, actuated by the profit motive, has resulted in coal mines appearing literally all over the place. It has made for an over-expansion of the industry. This same competitive factor might be expected to serve as a brake to slow down the process which it has engendered. Over-expansion and its consequent operation of many of the mines on a part-time basis might reasonably be expected to result in bankruptcy for the more inefficient mines; and, in accordance with orthodox classical economics, we should expect such mines by reason of their extra-marginal nature to close down and go out of business. Economic forces should, in the long run, insure the production of coal by the more efficient mines and its sale at prices corresponding to the marginal cost of production. Mine capacity under the free play of competition should adjust itself automatically to the coal-consumption requirements of industry at large. Producers unable to produce at a profit should be literally forced out of the industry. Competition in the coal industry, however, has failed to meet the reasonable expectations of the theorists in this respect. While the industry has been highly competitive, competition, as is so generally the case, has not worked without lag or friction. The rules of the game have undergone modification at the hands of the operators, the miners, and the public calculated to defeat the competitive ideal. As has been previously pointed out, the geological conditions under which coal production is carried on differ widely. The varying natural conditions serve to place certain producers at a disadvantage in the competitive game. Cost of production bears an intimate relation to the geological conditions under which coal is found. Thin veins of coal, other things being equal, can be operated only at a greater expense per ton of coal produced than can thick veins. The presence of foreign bodies in the coal vein likewise adds to the expense of production. The location of the mine is a factor of equal importance. Mines located near population and industrial

centres are low-cost mines as compared with mines remote from markets which must bear a greater freight charge. Cost of production is, in fact, a function of the geological conditions under which coal is found and the distance of the mine from the market.

The influence of these natural obstacles making for high production costs has been weakened by modifications which have been made in the rules of the game. Competition has been modified in accordance with that good American principle —an equal opportunity for all. In the wage negotiations of the miners and the operators, the so-called principle of competitive equality has been a guiding factor. Competitive equality has as its object the compensating in wage-rate adjustments for the disadvantage under which certain operators carry on. It means that basic wage-rates shall be so adjusted that operators at different points will be placed in a position to compete with each other. It means, in short, a levelling off of the disadvantages under which high-cost mines would normally operate. The principle was well expressed by Mr. P. H. Penna to the United States Bituminous Coal Commission of 1920 in the following words:

> "To pay the mine worker his wages on the basis of absolute justice would be, as I see it, according to the number of units of labour necessary to produce a ton of coal. Now that would be absolute justice—but it is impracticable. The only way left us, and the only alternative, is taking into consideration competitive ability and competitive relationships. If we should allow the first plan, then there are lots of little mining towns in America that would have to go out of existence. The thin-coal veins would have to be abandoned and the thick ones worked until exhausted."

It is true that there has been considerable disagreement between the workers and the operators as to which of the two conflicting interests should bear the burden of the principle of competitive equality. The operators have endeavoured to apply the principle in such a way that the burden of their natural disadvantage should fall upon the workers in the form of lower wages per ton of coal mined. The workers, on the other hand, have insisted at times that uniformity of wages was the ideal comprehended in the principle. The result has been frequent compromise, but by and large the principle seems to have been applied in such a manner as to result in a wage structure

with its complicated and frequently inconsistent system of differentials, designed to ensure the continued existence of mines poorly situated and operating under geological disadvantages.

The system of distribution of coal cars enforced by the Interstate Commerce Commission has contributed towards the same end. The Commission is the regulatory body designed to ensure the execution of the provisions of the Interstate Commerce Act. One important provision of this Act is the prohibition of discrimination and undue preference between shippers. The Commission has ruled that in times of car shortage, cars available for the transportation of coal shall be pro-rated to the various coal mines on a basis of their physical capacity to load coal. Were coal consumption customarily distributed evenly over the year, the railways would be adequately equipped to handle the transportation of coal. Coal consumption, however, is to a considerable degree a seasonal affair. The seasonal demand for coal, in truth, has been a contributing factor in the over-expansion of the industry. Coal storage involves expense. In addition there is a deterioration in coal if long stored. Under these circumstances industry has preferred to purchase its coal as it has been needed. The influence of over-expansion and such seasonal purchase has been reciprocal, however. Excess coal capacity has made it easy for industry to secure an adequate supply of coal during the period of peak consumption. The seasonal purchaser of coal has encountered a difficulty, however, because of the inadequacy of the railways to handle the coal traffic during periods of peak demand. It has been estimated that for the railways to handle promptly the total coal demanded during seasonal peaks would require an expenditure for additional equipment of $2,000,000,000. The inadequacy of railway equipment to meet the peak transportation requirements has resulted in an allocation of cars in accordance with the Commission's ruling on a basis of the physical capacity of the various mines. Such a situation has contributed to an expansion in the physical capacity of individual mines in order that they may be assured of a car supply adequate to meet their commercial requirements in the delivery of coal. Inasmuch as newly-opened mines have been given temporary preferential treatment during the period of their early development, this has established a definite impetus for the opening of new mines. Railway companies adjacent to undeveloped coal-fields have, in a similar manner, encouraged the opening of new mines as a source of additional traffic. These practices, of course, have been in accordance with the American

principle of an equal opportunity for all, and have aimed directly at the establishment and maintenance of competitive conditions in the mining of coal. They have been a contributory factor in the problem of over-expansion.[1]

The continued existence of excess mine capacity—a situation resulting in the main from a competitive control, compromised though it has been, in mining a mineral whose occurrence is widespread and access to which has been easy—has made hard the way of the coal operator. Coal mining has offered no royal road to financial success. Excess capacity has made for increased cost and at the same time for lower prices. The result has been lessened profit or outright loss. There have been feasts at times, of course, but by and large the coal-fields have been strewn with recurring bankruptcies. Coal operators confronted continuously by the ever-present shadow of financial ruin have sought refuge in lower costs. The predicament in which they have found themselves has necessitated a resort to machinery and large-scale production. Labour costs comprise the major cost of coal production. The way out for the operator seemed to lie in the introduction of the machine. And while the coal industry, because of the obstacles offered by the physical conditions under which the mining process has been carried on, has for more than a hundred years tenaciously resisted conquest by the machine, it is at last succumbing to its onslaught. In 1890 there were 6,000,000 tons of coal, representing only 6 per cent. of the total coal mined in the United States, undercut by machinery. By 1900 the percentage had increased to but 25 per cent. with a total of 52,000,000 tons. By 1913, however, more than 242,000,000 tons, representing 51 per cent. of the coal produced in the United States, was undercut by machinery and to-day approximately two-thirds of the total is produced by this method. The effects of improvements in technique[2] are suggested by an increase

[1] This situation is said to have been in part relieved by recent developments in industry at large. Small industries are said to be scrapping their boilers and buying power. This has meant a concentration of the points to which coal is delivered. Power companies tend to buy from large and well-established mines rather than from smaller ones. This has tended to reduce the number of points from which coal is shipped. The outcome has been a growing economy in the use of cars and relief from car shortage.

[2] Reference is not made here to the newer technique now available for the machine loading of coal and its transportation to the surface by means of mechanical conveyers. As yet only a very small percentage (precise figures are not available) of the total coal mined is loaded by machinery and transported by conveyers. There are a few mines which have been completely mechanised, however, and it is believed that the next few years will witness rapid progress towards general mechanisation.

in the average tonnage per man from 2·56 tons in 1890 to 4·28 tons in 1922. Uncontrolled resort to machinery and operation on a large scale, however, have not solved the operators' troubles. On the contrary, they have made for a further over-expanded condition of the industry. Capacity has been increased by the opening of new mines, but to an even greater extent by the more intensive exploitation of those mines in existence through a resort to more capitalistic methods of production. Here again competitive forces unimpeded might be expected, in theory, at any rate, to force the more inefficient mines out of existence through the channel of bankruptcy. Bankruptcy, unfortunately, does not achieve this end. The capital investment in coal mining, the excavation of the shaft, the hoisting machinery, the ventilating system, the tracks, cars and undercutting machinery represent a permanent investment of a highly specialised sort. Neither the equipment for coal mining nor the place of business can be utilised for any other industrial undertaking. A coal operator may be forced out of business, but this does not mean the permanent closing down of a mine. The investment is fixed, capital losses are written off and the mine with the lower investment charges remains to plague the industry. This has been a major factor in the retention in the industry of total mining capacity which has at any time been made available. Mechanisation has not solved the problems of the operators, and it has greatly aggravated the problem of unemployment. Under unrestricted competition it has proven a delusion and a snare.

Specific figures bear eloquent testimony to this condition of over-expansion. Whereas the maximum annual production of bituminous coal during the past two decades has been 579,000,000 tons (in 1918), the mines are equipped and manned at the present time to mine approximately one billion tons. The annual production for the ten years 1914–1923 inclusive averaged 494,000,000 tons, while the mines were equipped and manned to produce on the average 770,267,000 tons. Or, on the average, annual capacity has exceeded average production by approximately 56 per cent. The actual annual excess of capacity for any one year has varied from 25 per cent. in 1918, at which time the peak of production was reached, to the tremendous excess of 117 per cent. in 1922, when yearly production totalled 422,000,000 tons. Such excess capacity has called into the industry a surplus of man power. Despite the fact that the industry was overmanned in 1890 and has been continuously

overmanned since that date, and hence should appear to be unattractive to new workers, the number of bituminous coal miners has increased from 192,204 in 1890 to 702,817 in 1923. This increase in miners is in part a reflection of the increase in production of coal during the period under review, but not entirely so. Coal production since 1912 has shown but little change on the average. There have been good years and there have been bad years during the period. The peak of production was reached in 1918. Production in both 1921 and 1922 was less than the production of 1912, however, and production in any one year during the decade has not deviated from the average by more than 18 per cent. Despite this relatively constant production for more than a decade, the number of miners employed in the industry has shown a constant trend upward, the total having increased from 548,632 in 1912 to 702,817 in 1923.[1]

The result has been that surplus man power in the industry has become the normal situation. The existence of more mines in the industry than have been necessary to meet the consumption requirements for coal has tended to keep in the industry a large number of miners working on a part-time basis. More men must be retained in the industry than are necessary to mine the total coal produced. This, of course, would not be true were it possible to run the different mines continuously for a portion of the year and adjust the time of their operation in such manner that a surplus labour force laid off at one plant might be utilised temporarily by another. The idle days of a mine are not as a rule thrown together in one piece, or even combined in idle periods of a week or two, save in the case of the so-called "snowbirds" and "fly-by-nights." Rather, working days are scattered through the month over much if not all of the year. For example, during 1921, when the average number of days worked was less than half a full-time year, 936 of a total of 1929 bituminous

[1] Figures for 1925, released since this paper was written, indicate that the number of commercial mines in operation declined from 9,331 in 1923 to 7,144 in 1925; and the number of miners has declined from 702,817 in 1923 to 588,493 in 1925. Where these miners have gone to or whether they are permanently out of the industry is not clear; but it is made clear by questionnaires submitted by the United States Bureau of Mines that the great majority of these mines have closed down only temporarily, awaiting a readjustment in the Union wage scale or an increased demand, that they may reopen at a profit. It should also be noted that, despite the apparent loss in man power (temporary though it may prove), the workers averaged in 1925 only 195 days worked as compared with an average of 214 during the period reviewed in this paper. In truth, some of these mines have reopened during 1926 with the increased exportation of coal occasioned by the strike of the British coal miners.

mines on which the Coal Commission gathered data for its earnings study, or 49 per cent. of the mines, worked during every pay-roll. Of the 285 mines on which data were gathered for the earnings study of 1920, all but four ran in every pay-roll period during the year. While the summer months are customarily a slack season in coal production, it is to the interest of the operator to keep his labour force as nearly intact as possible, that he may increase without delay production during the season of brisk demand.

The vested right of the worker to his job contributes towards the same end. The result has been a continuous supply of labourers in excess of the normal yearly requirements when viewed by the task performed.

Thus, both the modifications in the rules of the game and the rules of the game themselves have contributed towards the same end. Together they have served to defeat the ideals which the competitive system comprehends. Free enterprise has not placed production in the hands of the economically fit. Both the fit and the unfit have continued to survive, and more miners have been encouraged to stay in the coal industry than the industry can well support. As a result under-employment has been chronic and acute. It remains the sore spot of the industry from the view-point of labour—a sore spot which will grow more inflamed under the irritating influence of continued mechanisation.

I have endeavoured to describe briefly the circumstances which have given origin to the major labour problem of the coal industry in America, and upon which the problem has so abundantly fed. The facts are well known, it is true, but the basic causes of these facts are quite generally ignored in a discussion of remedies. As with oil, so with coal—competition has made inevitably for confusion, a confusion which at the present time threatens to become for the labourer complete chaos. The Union is to-day facing a crisis, the seriousness of which seems to be unappreciated, and for the alleviation of which no adequate measures are being taken. The expansion in coal has resulted in a shift in production to those areas in which the Union has never been strongly entrenched. The competition of non-union coal with its lower wage scale has made harder the way of the Union operator. The Jacksonville Agreement of 1924 [1] has necessitated the temporary closing down of a great

[1] The Union miners secured a general wage advance under the Agreement of 1920. This higher wage-scale was maintained in the Agreement of 1922 and

many mines, and in numerous other instances the operators have found it expedient to break their contracts and to resort to the lower wage-scale of 1917 and to operate their mines on a non-union basis. The defection from trade union ranks has been most marked in those border regions where the competition of non-union coal has proven most severe. Here, indeed, in many localities the power of the Union seems to have been temporarily if not permanently broken. But even in the heart of the Central Competitive Field, the stronghold of Unionism, although there has been no general break with the Union, the Jacksonville Agreement has been side-stepped by evasion or subterfuge. Witness the recourse to so-called co-operative mining, apparently an attempt to shift the burden of a lower wage-scale on to the miners without incurring the hostility of the Union—an endeavour which seems to have been abortive, however. All the while, non-union territory, either by reason of a shift in production or a shift in organisation from a Union to a non-union basis, has been supplying a larger percentage of the total coal mined in the country. During the heyday of the Union's power in 1918, Union miners produced approximately 71·7 per cent. of the total coal produced. This percentage in 1925 had declined according to a recent estimate to about 33·2 per cent. When one stops to consider that the non-union mines are equipped and manned to produce unaided more coal than the country consumes, the fate that may lay in store for the Union, and hence for both the organised and unorganised labourer, is indeed challenging. The Union, confronted with a new situation, the magnitude of which cannot yet be readily determined, has sought refuge in tradition. It apparently prefers to fight it out on old lines if it takes all of eternity and if its back is broken in the process.[1] What the leaders have said about it and what they have done may be summed up in the advice which they have given the operators: "Coal companies should sell their coal at a profit or they should not sell at all," and in the now oft-repeated slogan of Mr. Lewis, President of the United Mine Workers of America, "No Back-

---

again in the Jacksonville Agreement. The Jacksonville Agreement expires on April 1, 1927. It is generally understood that the operators will demand a wage adjustment downward in their negotiations with the Union. There is little prospect that the Union will accept such a proposal, and already preparations are being made for a strike of the workers.

[1] The significance of this in the American labour movement can be appreciated only when account is taken of the fact that the United Mine Workers has been, since its organisation, one of the strongest Unions in the United States. Its membership (including the anthracite coal workers) was over 404,000 in 1923, at which time it constituted the largest single Union group in America.

ward Step," a slogan which threatens to become, in light of the developments of the recent past, a chimera and a nightmare.

All of this is intended in no way to shift the responsibility for the plight in which the mine workers find themselves on to their own shoulders. Responsibility is obviously to be laid at the door of the institutional scheme of things under which our resources have been exploited. The labourers have done the best they could with the technique which the cultural circumstances have developed. The problem is too large and complicated for any one group to solve. It indeed challenges the best thought of all those who have to do with coal—the operators, the public, the labourers—and perhaps the economists too. What they will do with it remains to be seen.

George Ward Stocking

University of Texas.

ECONOMIC LAW IN SOVIET RUSSIA

FOR the first three years after the Revolution in Russia, Civil Law was practically non-existent: the Communist State having taken over all economic functions, there was no room left for individual freedom in economic affairs. Thus, when the question of codifying the Civil Law was raised in the Congress of Soviet Jurists in 1920, nothing could be found to codify except—the hiring of shepherds.

In 1922 the N.E.P. (New Economic Policy) revived Civil Law, but within much narrower limits than in Tsarist Russia. Some of the most important branches of economic life remained monopolies of the State (large-scale industry, foreign trade, etc.), and in other cases regulation by the State was so strongly enforced that it was difficult to say whether a body was a private or a public one (*e.g.* the Co-operatives). Accordingly, side by side with the Civil Law that covers the free economic intercourse of citizens, special codes have had to be created for institutions that are wholly or mainly regulated by the State. These special codes, together with the Civil Code, form what Russian jurists now call Economic Law.

The system is still incomplete: some of its parts are not sufficiently worked out. It lacks unity, inasmuch as its various parts bear the imprint of different epochs and different economic concepts. It is very short: instead of the exhaustive enumeration typical of the European codes, the Soviet Code confines itself to stating principles.

The present article will deal only with a few main points of Soviet Law, and only in so far as they differ in principle from the usual standards of the European codes.

The Civil Code

Civil Law is distinctly the stepson of the legislator: it is admitted only as a concession to the momentum of the old social structure; it operates, not in its own right, but only in so far as the State has not yet socialised the whole economic activity of the nation.[1] Accordingly, § 5 of the Code prohibits the

[1] The contrary may be, and often is, asserted, namely, that the restoration of Civil Law means a return from Communism to a policy of individual freedom. This controversy, however, is outside the scope of the present article.

enlarged interpretation of any of the ordinances of Civil Law, that is to say, prohibits their application to institutions that come under special laws. Further—and this is the main point—Civil rights bear a purely conditional character. According to § 1, " Civil rights enjoy the protection of the State, except when they are used contrary to their economic and social purposes"; and § 4 reads: " Rights are granted for the purpose of developing the productive forces of the nation." The right of a person is thus conditioned not only by the law but also by the practical effects of its use. On the strength of these clauses the Courts, for instance, may reduce the penalty stipulated in a contract for its non-execution if they find the amount of the penalty out of proportion to " the economic aim " of the contract. The sale of a fruit garden for timber or of a house for breaking up may be annulled as economically irrational. The old Civil Code extended its protection to betting; the Soviet Code considers betting indifferent from the point of view of " productive forces " and therefore leaves it unprotected. In the case of a high selling-price, the sale may be annulled as " leading to the disorganisation of the market." On the other hand, if it is proved that the exorbitant selling-price has placed the buyer " in financial difficulties," the seller is forced to return the surplus profit to the buyer, the transaction being considered contrary to social policy. The same treatment is dealt out in cases of usury.

The idea of the equality of all before the law is openly abandoned. The State, as " the embodiment of the Socialist idea," enjoys the maximum of protection: it has the right of mortgage on the property of persons contracting with it, with a priority over all other mortgages; transactions where one or both parties have " profited at the expense of the State " are void, and if the parties acted knowingly, both the subject of the transaction and the money paid are confiscated. Next in order of protection come the poor and " the working class." (" The working class " is rather a vague phrase; it seems to cover Civil servants—and in Soviet Russia nearly everybody is now in State service—but not the clergy or merchants.) According to § 33 any agreement where one party has taken advantage of the needy circumstances of the other is null and void. The Courts, taking the financial position of the contracting parties into account, may reduce the penalty for non-execution of the contract. According to § 411 the financial position of the parties has to be taken into account when assessing damages. More than that, according to § 406 damages may be assessed solely on a consideration of the parties'

financial position, even though the law itself frees the defendant from any responsibility, as, *e.g.*, in cases of *force majeure* or of gross negligence on the part of the injured party. The sphere of discretion thus granted to the Courts is truly revolutionary.

Ownership

Several classes of property are quite withdrawn from the operation of the Civil Code: some are nationalised (land, forests, railways, large-scale industry); others are municipally owned (nearly all buildings in towns). Leasing is the only institution of Civil Law which is applicable to them; for the rest, their legal position is dealt with in the special codes. As regards private ownership, the provisions of the law concerning possession, mortgage, etc. show no peculiarities, except in the matter of Limitation. The term of Limitation is very short—three years. Acquisition through Limitation is unknown in Soviet Law; it leads only to loss of ownership, the former owner being automatically replaced by the State. The State, however, has had to confirm and stabilise the rights of those persons who in the turmoil of the Civil War and by various means came into possession of all sorts of property that had not previously belonged to them. The State itself could not dispose of this; hence the conception of " Working Use " (which we shall meet again in the Land Law) as the legal title of ownership. In this case the article must be a useful one, not a luxury; it must have been actually used by its new possessor; and its acquisition by the latter must not have been based on any illegal agreement, and must have taken place before the issue of the 1922 Civil Code.

Buildings

During the Militant Communism of 1918–19 all buildings were taken over by the municipalities. Under the New Economic Policy some of them, but not many, were returned to their former owners; but since then no further buildings except on peasants' land (see below on the Land Law) have been allowed to pass into private ownership either by purchase or construction. The appalling housing conditions in the towns, however, and the necessity of attracting private initiative to building, have led to the formation of a building right unknown to old Russia and similar to the English Leasehold. The land is leased by the municipality for a period varying between forty and sixty years for the purpose of building; the lessee may sell and mortgage his

rights on this land; and on the expiry of the lease the house passes to the municipality against payment of its then value.

Private buildings are subject to a peculiar restriction: they can be sold only if the owner—or any member of his family—has not already sold some other building within the last three years; and the buyer must be a person who does not already own another building—a clause directed against speculation in real estate and its concentration in few hands.

The term of sub-tenancy—all town houses are being sub-let in the present housing dearth—is not to exceed twelve years. Rents are fixed by the municipality, at the normal rate for standard accommodation ($4\frac{1}{2}$ square yards per head), and at three times the normal rate for more than that. Only leaseholders have the privilege of exceeding these rates. The landlord, whether a private person or the municipality, is not free to give notice to quit to certain classes of sub-tenants—State organisations, members of soldiers' families, persons disabled in the War or in employment (" invalids of work ")—unless misconduct on their part can be proved.

Agreements

The Code adopts the old classification—verbal, written and notarial agreements. As we saw, exploiting another person's needy circumstances makes an agreement null and void: proceedings in such cases may be started not only by the person exploited but also by the State and other social organisations. The practical importance of this clause must be very great in villages, since it gives local Soviets a powerful weapon against any capitalistic tendencies among their countrymen.

In cases of refusal to execute an agreement the rule is not monetary damages, but the actual execution of what has been agreed upon, whether it is a question of movable or immovable property. Physical impossibility, of course, exempts from execution. When execution, though not impossible, becomes extremely difficult financially, owing to some unforeseen change in market conditions, Russian jurisprudence has invented the concept of " economic impossibility "; on the principle that casual gain as well as casual loss is contrary to the economic aims of the Republic, such agreements are in practice declared null and void.

As a minor point may be mentioned the very short Limitation for claims against the guarantor of the agreement—only three months.

Companies

The law provides for private, State and mixed companies. State companies are regulated by a special law (see below on Trusts). Mixed companies are those the members of which are partly private persons and partly public bodies; their status is very indefinite. The structure of private companies differs very little from European standards, except for some clauses reinforcing the protection afforded to shareholders against promoters; the latter must take up not less than one-tenth of all shares; they cannot sell them until the expiry of the second accounting year, and they are jointly and severally responsible for any losses they have caused to shareholders by fraudulent misstatements. With a few exceptions the ownership of shares has to be registered.

Private Industry

The rôle of private industry in the U.S.S.R. is small, and its status very vague. Soviet Law admits three forms of private industrial enterprises: (*a*) works owned by private persons or private companies; by legal practice, though the law is silent on this point, these cannot employ more than twenty workmen: (*b*) enterprises leased by private persons from the State; here the period of lease must not exceed twelve years; and (*c*) concessions, *i.e.* the lease of larger enterprises and for a longer term than is foreseen by the law, or, rather, by legal practice. Every concession requires special sanction from the highest authority, the Federal Economic Council, and the provisions of the law being most inadequate, the granting of concessions in practice is based on precedents derived from previous cases. Annulment of a concession may take place either by mutual consent or by the decree of a Court if one of the parties has violated the contract. On the expiry of a concession all works erected by the concessionary become the property of the State.

Inheritance

Inheritance was at first abolished by the Revolution: until 1923 the property of the deceased passed to the State. From 1923 until 1926 inheritance was permissible, but only up to 10,000 roubles (£1000). The Decree of March 1926 abolished this restriction, but retained others. The circle of persons who can inherit from an intestate is a very narrow one, consisting only of descendants, the widow or widower, and persons who have been

wholly maintained by the deceased for at least one year (*e.g.* wives *de facto*); all these receive equal shares. Wills may be made in favour only of the same groups of persons, but amongst them the testator may distribute his property as he thinks fit; if there are no such persons to inherit it, his property passes to the State. Taxes on inheritance are surprisingly low for a socialistic code with levelling tendencies: 5 per cent. on £1000, 25 per cent. on £20,000, and 90 per cent. on fortunes over £50,000.

Patents

The law contains the usual provisions for the protection of the inventor. The State may requisition any patent " in return for fair compensation."

Copyright

This is of short duration, being for five, ten, or, as a maximum, twenty-five years, according to the type of work. Copyright, too, may be requisitioned by the State—which the State has freely done during recent years. Anyone is at liberty to translate a copyright work: a clause introduced chiefly on account of the variety of languages spoken within the territory of the U.S.S.R. Works may be converted, without permission from the author, into another form, " provided the difference is considerable."

Insurance

This is a State monopoly. The rates are fixed. All buildings must be insured: private ones are regarded as insured without any special agreement, but for buildings belonging to a municipality or to the State, special insurance agreements have to be made out. In some districts cattle may be insured *en bloc* against epidemics, or grain against hail.

Industrial Law

Legal relations arising out of industrial activity are in Europe mainly covered by the Civil Codes, being based on agreement. In the U.S.S.R only a minority of industrial enterprises, namely, private ones, and these only to a certain extent, are subject to the Civil Code: the bulk of industry is regulated by special laws.

Trusts

Practically all State industries now have the status of Trusts, but with European Trusts they have nothing in common but the

name. The Russian Trust is a State organisation built on the lines of private business the better to adapt itself to economic conditions. At first, Militant Communism nationalised all private enterprises and tried to manage them on bureaucratic lines, *i.e.* from the centre. Time and experience, however, showed the necessity of decentralisation, and enterprises were accordingly transformed into economically separate and, in principle at least, self-contained units with the attributes of a legal person, with their own budgets, their special property, and provisions concerning their profits and the manner in which they might be liquidated; in short, into Trusts. (Banks and State farms are constructed on similar lines.) Legally they are distinct from the State: they can conclude agreements with the Commissariats (the Ministries) or with other Trusts; and the State, whilst governing them, is bound by certain rules with regard to them. Their fixed property, buildings and machinery, cannot be alienated by the Trusts themselves and is not liable for their debts; the ownership of it rests with the State. The so-called circulating capital—funds, cattle and furniture—can be disposed of by the Trusts within certain limitations.

The State always fixes the prices at which the Trusts are to sell their products, and usually it also fixes whom the products are to be sold to. The inter-relations of the Trusts, although entirely controlled by the State (the highest authority being the Federal Economic Council), must take the form of agreements, with the usual clauses about advance payment, penalties, time of delivery, quality, etc. Sometimes the State buys in advance the whole of the production of a Trust, for its own use or for another Trust; for example, the Ministry of Communications will agree with the Federal Economic Council as to the quantity of rails it will require, and the Council will distribute the amount required among metallurgical Trusts, each of which has then to conclude an agreement with the particular railway it is to supply.

A Trust usually consists of a dozen or a score of factories situated in the same region. Factories are not legal but purely technical units; they cannot undertake any commercial operations. The profits of a Trust pass to the Treasury, except 20 per cent. for reserve capital and some percentage for commission and for the betterment of social conditions among the workmen.

Whether the Trusts are indeed a temporary adaptation of Socialistic ideas to actual conditions, or whether they mean a return to capitalism, are again questions lying outside the scope of this article.

Syndicates

A Syndicate is a union of Trusts, either spontaneous or prescribed from above, formed with the object of unifying the purchase of raw materials and the sale of the product. Syndicates have their own capital, which consists of money contributed by the Trusts and subsidies granted by the State. The responsibility of their members is limited; sometimes it is limited to two, three or five times the value of the capital invested by each. When selling on behalf of the Trusts, the Syndicate adds from 2 per cent. to 3 per cent. to the price for profit.

Exchange of Goods

The regulation of trade by the State in the U.S.S.R. is twofold: indirect, *i.e.* commercial pressure exerted on the market through disposal of large stocks belonging to the State; and direct, through orders to Syndicates and Trusts. These orders either regulate the whole of the transaction, prescribing the buyer, the conditions of sale, and the time of delivery (this is typical of large-scale industries); or are confined to prescribing the region where the Trust must dispose of its product, leaving the Trust to find its own buyers (this is typical of articles for home consumption).

Exchanges

These are virtually confined to the exchange of goods through the medium of brokers, on quite ordinary lines. Operations with shares are much curtailed, speculation finding no favour with the Soviets.

Banks

These, few in number, are all organised as limited companies, but are nevertheless essentially State institutions founded by the Treasury. Like Trusts they are constituted as legal persons, with self-contained budgets. Their main duty is to finance Trusts and Syndicates.

Co-operative Societies

In the opinion of Soviet legislators the purpose of Co-operative Societies is not simply to render assistance to consumers, but rather to unify consumers in preparation for complete socialisation. The State, therefore, regulates their functions very actively. Only persons enjoying the right of political voting have the right of membership. Both the minimum and the

maximum of investment are very low. According to their statutes the Co-operatives have to distribute and retail the produce of Trusts. The Trusts usually conclude the sale with some central organisation of the Co-operatives, which then distributes the total quantity of goods purchased among its various branches. The Co-operatives have considerable privileges as against private persons: they may possess industrial works of any size; they may take over nationalised and municipalised buildings; and they have priority in recovery of debts, etc.

Mining

Here the peculiarity in the Soviet Code consists in the privileges accorded to the discoverer of new deposits of minerals. Without having to pay royalties he is entitled to a lease from the State. At the same time he must take the option up within a certain period, or lose it altogether. The product is his own property, for which he has to pay over to the State a mining tax and 5 per cent. of his profit.

Land

All land without exception is owned by the State and is therefore altogether exempt from the operations of the Civil Code.

Militant Communism made an attempt to distribute land equally. According to the Land Nationalisation Decree of 1918, "each peasant shall receive no more land than is necessary to secure his existence without penury." All land was then regarded as one mass to be re-distributed anew; the richer villages were to hand over part of their land to the poorer ones, and a peasant who had more than the average for his district was to give away the surplus to his poorer neighbours. The only régime admitted was that of the old Tsarist commune, with its periodical re-divisions of land according to the number of "souls" to be supported; and these re-divisions became, in fact, more frequent than ever, taking place nearly every year. The levelling experiment led to chaos, and had to be arrested half-way; and the Land Code of 1922 fixed the possession of land as it then was.

While maintaining the national ownership of land, the 1922 Code recognised its being in "economic working use" by the peasants. It re-admitted leases of land and the change from communal to individual farming. The land is now given for use to the peasants free of charge and without time limit; the only way in which the State can dispose of it is within the general law

of expropriation for common use. But the peasants' right is nevertheless conditional. It is subject, first, to "economic use," that is to say, to economically rational use; hence rapacious farming or failure to cultivate brings loss of rights, any ownerless land returning to the State or to the village commune. In the second place, "working" use means that the peasant must cultivate the land personally; hired labour, being a feature of capitalistic farming, was entirely prohibited in the first years after the Revolution. Yet here again the legislator has had to bow to the requirements of the peasants; and hired labour has been re-admitted, though only on condition that farming does not thereby lose its personal working character, *i.e.* that the employer must work on the same footing as the employee. (One may see the spectre of the old estate-owner looming behind this clause.)

Leasing had to be re-admitted as well. Its maximum term was gradually lengthened to fifteen years. The lessee, too, has the right to make use of hired labour, but under the same restrictions as apply to the possessor himself.

Buildings are the full property of the peasant, but may be owned only by those who possess the land they are built on.

Forests, in so far as they are not set apart for the use of the State, which is exploiting them through Trusts, are given to peasants on the same principle of "working use" as the land. The peasants may use the timber for their own needs, but cannot sell it; they are obliged to look after the forests and to observe prescribed systems of cutting.

The legislation with regard to the land is on the whole the most conservative part of the Economic Law of the U.S.S.R., the reason for this being obvious. The legal position of the commune, now as formerly merely an agricultural and not an administrative unit, has been left almost intact; the commune decrees the re-divisions of land (which, however, are not now allowed more often than once every nine years), fixes the rotation of crops, possesses land and buildings of its own, etc., etc.

A curious legal concept (dating among the peasantry from time immemorial) is the Dvor (the household). The right of possession belongs not to this or that mujik or his family, but to the Dvor. The latter includes all members of the family present or temporarily absent, together with persons in fact recognised by the family as full partners, such as relatives and sometimes workmen. The head of the family is only the traditional representative of the Dvor, and possesses no privileges as against other members: the Dvor can protest against his actions to the com-

mune, and get him displaced. The property of the Dvor does not answer for debts contracted by its members for their personal benefit, but only for debts contracted for the benefit of the Dvor itself. The institution of inheritance becomes, therefore, superfluous; the Dvor being quasi-immortal, the only objects which can be inherited are the personal belongings of the deceased.

The peasant is free to abide in the commune or to exchange his land for co-operative or individual possession.

Co-operative Possession

This is a new concept on purely communistic lines. In some of the land co-operatives the land is cultivated in common, but the produce is divided among its members; in others, both production and consumption are in common. The law, without enforcing this method of farming, gives it preferential treatment by allowing it more credit and reducing some fees and taxes, etc. Apparently, however, the land co-operatives have taken no root in Russia.

Individual Possession of Land

Despite its antipathy to individual effort, the Soviet Government was compelled in 1921 to recognise the economic necessity of taking up again the agrarian reform of 1906.[1] This, the passing of the peasants from communal to independent farming, has now been re-started approximately on pre-war lines. The only fundamental difference is that separation from the commune does not give the peasant ownership of the land. At the time of communal re-divisions any single peasant may claim separation; at other times, separation is possible only if one-fifth of the commune claim it. In such cases partition of the land is carried out by Land Committees. The size of the new farms is based on the number of members in the Dvor, and the new farm must contain all its land in one or in a few plots; whereas under the communal régime the land allotted to each Dvor always consists of many "strips," ten, twenty, or more, in number, spread over the whole area of the commune.

N. GUBSKY

[1] See article by the present writer in the ECONOMIC JOURNAL for December 1921.

THE FUTURE OF GOLD AND INDIAN CURRENCY REFORM

SIR BASIL BLACKETT, the Finance Minister of India, put before the Hilton-Young Commission on Indian Currency and Finance a scheme for a gold standard and a gold currency under which the silver rupee would no longer be legal tender except for small sums, and after a period the rupee would be convertible into gold currency. This scheme was rejected by the Commission after exhaustive inquiry. It would have involved a large demand for gold at a time when European countries were attempting to get back to normal trade conditions, and it would have meant the dethronement of the rupee and the sale of redundant silver equivalent to three times the world's annual production. It was hoped by the sponsor of the scheme that the uneconomic habit of the people of India (who hold to-day £550,000,000 or 14 per cent. of the world's stock of gold) would be cured by the introduction of a gold currency. The views of Mr. Benjamin Strong, the Governor of the Federal Reserve Bank of New York and his American Colleagues, Professors Sprague and Hollander, and Mr. Montagu Norman, the Governor of the Bank of England, on gold, the evidence of Sir James Brunyate, who defended the gold exchange standard as a system of currency, and of Mr. C. H. Kisch, Financial Secretary at the India Office, who criticised Sir Basil Blackett's scheme with special reference to its cost, are of particular value in this connection. It is undoubtedly true that one of the most important of monetary problems in the next two decades is whether the supply of gold will or will not be sufficient to avoid a fall in world prices. If the conclusions are that present prospects point to a gradual and substantial decline in gold production over the next twenty years in the absence of a revolution in mining methods or new discoveries, a fall in prices may be regarded as probable. The fall could be prevented by suitable action on the part of the Central Banks of the world with a view to economising gold.

From 1896 to the outbreak of war prices were rising with the largely increased production of gold from the world's mines. In many countries, notably in India, there was a considerable increase from 1905. Had there been no war it is not improbable

that prices to-day would have been higher than the pre-war level, and it must not be thought that we have of necessity to get back to a pre-war level of prices. In fact, in their evidence before the Royal Commission on Indian Currency and Finance, the American witnesses stated that the Federal Reserve Board was working to keep the price level stationary at about 50 per cent. higher than the pre-war rate. In the last few years, in the case of those countries which have stabilised their currency, the movement in prices has been downwards.[1] As things tend to become more normal cheaper methods of production make for a lowering of prices. The question of the supply of gold is more intimately connected with the long-period movement of the price level than with the short period. It is with the long period that we are especially concerned.

There are not a few who hold that the essential function of gold for monetary purposes in the past was for circulation and for the redressing of an adverse balance of payments in the interval before it is corrected, and with the withdrawal of gold for circulation only the second of these functions remains. Gold, however, human nature being what it is, is required as a store of value and as a sign of unassailable strength. The effect on the imagination of such a store can scarcely be over-estimated from the point of view of confidence. Nevertheless, the function of gold in the present-day monetary systems of the world is changing. It does not support the whole structure of credit in a country. Gold reserves have not to increase proportionately with the growth of business. The additional use of gold on this account need be only small. Payments cancel themselves out through the use of cheques and currency notes, and very little gold need pass in final settlements in a country in spite of its continued importance in the clearing of foreign debts. Gold is to-day still the basis of the credit and price systems of the world, and the amount of gold which any country keeps depends both on the prestige of the

[1] Pre-war = 100.

	Oct., 1925.	Feb., 1926.	Feb., 1927.
Great Britain	154	149	143
United States	158	155	146
Sweden	154	152	146
Netherlands	154	149	144
Austria	127	120	130
Hungary	131	125	127
Germany	143	134	103

Cf. Federal Reserve Bulletin.

note-issuing bank or Government and on the custom that obtains in the country. With a change in custom there may be quite a considerable decrease, for example, in the amount of gold considered to be necessary for confidence. In France in recent years the reserve fell to a low percentage, but this had no great effect on the confidence of the general public in the Bank of France. In the Federal Reserve system in the United States the reserve of gold is a high percentage, over 70 per cent. The ideas prevalent in a country as to a safety margin and the prestige of the note-issuing institution then govern the size of the reserve required as a sign of strength. So long as gold is the one commodity acceptable for all products and services, it will remain the basis of the world's credit and price systems. It is hardly correct to say that gold for monetary uses is to-day required only for redressing an adverse balance of payments. It is required also as a store of value within countries.

The most remarkable features of gold production are the phenomenal production in the last quarter of a century and the probability of a decrease in production in the near future. The strictest economy in the use of gold will be essential if a fall in world prices is to be avoided. The following data [1] have been carefully prepared to show the position at a glance :

Gold Production

(In £ millions at 84*s*. 11½*d*. per fine oz.)

(i) 1493–1926.

Period.	World's Output.	Percentage of Aggregate.
1493–1800	£487 m.	12
1801–1900	£1,583 m.	37
Total (407 yrs.)	£2,070 m.	49
1901–1926 (25 yrs.)	£2,109 m.	51
	£4,179 m.	100

[1] Sources: Soetbeer's *Materials for the Illustration and Criticism of the Economic Relations of the Precious Metals and of the Currency Question*, Berlin, 1886; the careful memoranda of Mr. Joseph Kitchin and of the American witnesses before the Royal Commission on Indian Currency and Finance (Vols. III and V, 1926) : *Statist*, March 26, 1927, and my paper on "Some Effects of the War on Gold and Silver" (Royal Statistical Society, 1920).

(ii) ANNUAL OUTPUT

	Transvaal.	Rest of British Empire.	Foreign Countries.	Total World Production.
1913 . .	37·4	21·2	36·1	94·7 (pre-war yr.)
1915 . .	38·6	22	35·8	96·4 (record yr.)
1917 . .	38·3	17·8	30·2	86·3
1918 . .	35·8	15·2	28	79
1919 . .	35·4	14·7	24·9	75
1920 . .	34·7	13·4	20·9	69
1921 . .	34·5	12·9	20·6	68
1922 . .	29·8	14·8	20·9	65·5
1923 . .	38·9	14·5	22·1	75·5
1924 . .	40·7	15·3	25	81
1925 . .	40·8	15·3	24·9	81
1926 . .	42·3	15·2	25·3	82·8

(iii) OUTPUT IN 1926

	Fine oz.	Value £.	% of total.
Transvaal	9,962,852	42,342,000	51
United States	2,189,830	9,307,000	11
Canada	1,729,000	7,348,000	9
Russia	992,155	4,217,000	5
Mexico	753,682	3,203,000	4
Australasia	613,697	2,608,000	3
Rhodesia	594,205	2,525,000	3
India	383,215	1,629,000	2
Total British Empire . .	13,543,829	57,561,000	69·5
,, World	19,498,520	82,869,000	100

There are many important facts that strike the eye as one glances down these tables. The production of gold in the present century is the equivalent of half the world's output during the last four hundred and thirty-four years. Since the high-water mark of 1915 there has been a drop of 15 per cent. in the world's output, although in the Transvaal, which produces a shade over 51 per cent. of the total, there has been an increase of 9½ per cent. The production of gold in the Transvaal in 1926 was chiefly the cause of the world's output in 1926. Indeed the production was a record production for any single producing country. By means of improved technical methods of production, and in spite of higher costs for stores and higher wages, the costs of production in the Transvaal have been reduced. An analysis of the views of British, American and South African experts shows on the whole that there is, nevertheless, the probability of a decrease in production within a short period of

years. The official mining engineer of the South African Government, Sir Robert Kotze, estimates a decline in ten years of about 48 per cent. " Unforeseen discoveries may, of course, put an entirely new complexion upon the position," he adds, " but it is not safe to rely on such an eventuality." Mr. Joseph Kitchin, Manager and Director of the Union Corporation, one of the largest mining corporations in the Transvaal, believes that production is now at its maximum and that new mines to be opened would not offset the declining output of older mines. He also holds that the decline in the Transvaal would not be equalled by increases elsewhere. He informed the Royal Commission on Indian Currency and Finance that for the five years to 1929 the world's production may be estimated at £395,000,000, of which 1925 has already contributed £81,000,000. For the following five years the production he estimates at £365,000,000, and is of opinion that this is rather optimistic. By the end of 1934 the Transvaal production he believes will be 30 per cent. less than at the present time. He allowed a production in the case of Canada of £8,500,000 per annum, and also a possible increase in the case of Russia to the pre-war figure, but did not allow for any large increases elsewhere. It is doubtful if the allowance for Canada's increase in gold production is sufficient. It has already doubled since 1920, and before long it will take the second place in the gold-producing countries of the world. There are experts who believe the Canadian production will increase within five years to £10,000,000 or even £12,000,000. In the case of the United States there has been a fall from nearly £21,000,000 in 1915 to £9,300,000 in 1926, owing to the exhaustion of profitable mining in Nevada and Colorado. The level to-day is below that of the 'fifties of last century. Australia and New Zealand have fallen from being the most important producing areas in the world to a level to-day with Rhodesia. Professor Gustav Cassel supports the view of a possible shortage of gold and the necessity of economising gold to avoid a heavy and continuous decline in prices, which in turn would lead to disputes, strikes and depression. In his evidence before the Commission he showed that between 1850 and 1910 the world's stock of gold was multiplied by 5·2, which corresponds to an annual increase of 2·8 per cent. He selects this period because the general level of gold prices in 1910 was almost the same as it was in 1850. In the *Skandinaviska Kreditaktiebolaget* he shows that in the years 1920-23 gold virtually doubled in value. The return to the gold standard by a number of countries has increased the demand for the metal, but production has not

increased and an increasing scarcity of gold must result. This will be intensified if the production of commodities expands to a considerable degree at the same time. Professor Cassel fears that gold production will not increase more than 2 per cent., and therefore the world must restrict its gold demands as far as possible. Mr. Kitchin has worked out the increase in the stock of gold money between 1851 and 1907, a period of 56 years, as 3·03 per cent. per annum, and between 1844 and 1913, a period of 69 years, as 3·04 per cent. He shows with the increase in efficiency of gold money the figure for 1880 to 1913 is 2·76 per cent. It is doubtful if Professor Cassel is right in taking a percentage based on the average of the period 1850 and 1910, when all countries, with one exception, went on to the gold standard, and when the banking systems of the world were not so developed as they are to-day and the economising of the use of gold not so great. The Commission on Indian Currency and Finance were convinced "that it would be most imprudent not to take into account the possibility, indeed the probability, that unless great economy is exercised in the use of gold, both in regard to its use as a commodity and its use as money, we have to look forward to a prolonged period of steadily falling commodity prices throughout the world."

It must be admitted that the proof that the supply of gold in the near future will be insufficient is not absolutely conclusive, because of the possibility of economising in the use of gold, especially in regard to banking. It is necessary to examine the available data in regard to the consumption of gold. Approximately 52 per cent. of the world's stock of gold is used for monetary purposes, 32 per cent. for industrial purposes in Europe and America, and 14 per cent. is absorbed by India. The effect of gold absorbed by India in the period following the Californian and Australian gold discoveries of the middle of last century has been to moderate the large increase in prices that took place. India's absorption is important because the quantity of gold absorbed is relatively to the world's annual production large. It is still more important because the gold is used for hoards and jewellery and does not remain, as in the case of gold taken by Western nations, part of the world's monetary stock. The following table shows the employment of the world's stock of gold in the pre-war year and in 1924. The data were submitted by Mr. Kitchin to the Commission on Indian Currency and Finance in a slightly different form and have been compared with the available statistics.[1]

[1] *Vide* Table 5, p. 538, Vol. III, Royal Commission on Indian Currency and Finance.

World's Employment of Gold.

(In £ millions.)

	End of 1913.	End of 1924.
Monetary gold:		
State banks and treasuries	945	1,710
Other banks	125	90
Circulation	500	100
Not traceable (including hoarding) . .	18	200
Total	1,588	2,100
Gold for the Arts (Europe and America) .	1,042	1,241
India's absorption	392	553
Absorption of China and Egypt . . .	100	106
World's output (since 1493) . .	£3,122	£4,000

(Expressed in percentages.)

Monetary gold .		
State banks and treasuries . .	30	43
Other banks	4	2
Circulation	16	3
Not traceable (including hoarding) .	1	5
Total	51	53
Gold for the Arts (Europe and America)	33	31
India's absorption	13	14
Absorption of China and Egypt . .	3	2
	100	100

It will be seen that the amount of monetary gold in State banks and treasuries has almost doubled, and that the amount of gold in circulation at the end of 1924 decreased by £400,000,000. A comparison of the gold reserves of Central banks and governments in 40 countries of the world in 1926 shows an increase of 92 per cent. over those in the pre-war year 1913. The gold holdings of these 40 Central banks and governments were £1,836 millions in 1926, as against £954 millions in 1913. There is, as is well known. little monetary gold now outside Central banks except in the United States, Canada, and Australia. In June, 1926, in the United States there were $40 millions in gold coin, not including gold certificates, held by banks other than Federal Reserve banks, and apart from that in circulation. The pre-war (1913) figure was $225 millions. The Canadian banks at the end of 1926 had $70 millions outside the Central Reserve, while in Australia in June, 1926, the gold held by Commercial banks (including a small amount of silver) was

£32,000,000. In this period then, gold has been concentrated in banks of issue at the expense of Joint Stock banks and of the gold hitherto in actual circulation. An examination of the distribution of the gold in reserves shows that it is much more unevenly distributed than before the war. The reserves of the United States, Japan, Australia and some of the South American States show large increases, while those of Italy and Eastern Europe are less. The reserves of the United States are more than three times the pre-war level, while the volume of credit has similarly increased. The efficiency of American banking reserves has been, of course, greatly increased by the Federal Reserve system. The tendency since 1924 has been general throughout Europe for countries in which gold stocks were relatively low to build up their gold reserves, while countries which accumulated large stocks in the war have been shipping gold to other countries. Since May, 1924, Germany has increased her gold holdings by £65,000,000, or at least 255 per cent. Belgium and Hungary have also since 1924 increased largely their gold holdings. At the end of 1926, 44 per cent. of the gold holdings of Central banks and governments were in the United States and 8 per cent. in Great Britain, or more than one half the total. The gold reserves of countries in Europe (25 in number including Great Britain) were 37 per cent. of the total, as compared with 44 per cent. in the United States and 19 per cent. in countries (14 in number) outside the United States and Europe.[1]

The absorption of gold by India is most striking. Unlike China, which during the last three decades has taken over three-fourths of her imports of the precious metals in silver, India has taken only 45 per cent., the remainder (55 per cent.) being in the form of gold. Since the pre-war year (ended 31st March, 1914) India has year by year except on three occasions (1915–16, 1918–19, and 1921–22), and in spite of the war, been an importer of the precious metals, and this has not been for monetary uses. The following table shows the large imports in the last four years, and when one remembers the total annual production from the world's mines, this large absorption is all the more striking.

[1] Cf. Federal Reserve Bulletin, April, 1927. U.S.A. gold holdings (Treasury and Reserve banks) were in 1913 $1,290,420,000 and in 1926 $4,079,531,000; Great Britain (including gold in both the issue and banking departments of the Bank of England, including some silver and the currency note reserve) in 1913 were £34,049,000, and in 1926 £147,084,000. The reserves for European countries including Great Britain (25 in number) were in 1913 £566,257,000 and in 1926 £672,671,000; for non-European countries excluding U.S.A., these were in 1913 £130,034,000, and in 1926 £347,779,000.

Net Imports of Gold into India.[1]

(Weight in fine ounces and value calculated at 84*s*. 11½*d*. per fine oz.,

Year ended 31st March.	Wt. in fine ozs.	Value in £.
1923	5,858,298	24,885,562
1924	4,319,356	18,348,265
1925	11,965,221	50,827,262
1926	6,135,579	26,063,428

The net imports were in these four years larger than in any year since the war except for the year ended 31st March, 1920, when the net imports converted at the average rate of exchange of the year were £35,150,000. From Bombay, where the major portion of the gold arrives, it finds its way up-country to meet the demand which is general throughout India. Delhi, Amritsar and Agra are the main distributing centres in Northern India. The prosperous Canal Colony districts of the Punjab and the cotton-growing areas in Bombay and the Central Provinces are large consuming tracts. In times of insecurity the tendency to hoard, strong indeed for generations, becomes stronger, and if gold as in recent years is cheap it is an attractive although barren investment. In 1924–25, owing mainly to the agricultural prosperity and to the low price of gold, all surplus cash was invested in gold. " Almost every family," wrote the Controller of the Currency, " in which marriages were likely to occur during the next year or two, took the opportunity to lay in the necessary store of gold while it was cheap."

Were this absorption of gold to decrease considerably there would be economy in the use of gold. There has been in recent years a considerable saving by refraining from using gold coin in Europe and America. In India, too, the use of gold coin is indefinitely deferred by the recent Indian Currency Act (Act IV of 1927). This act has demonetised the sovereign and half-sovereign and prescribes the continuance of the economical gold exchange standard, until the gold bullion standard and the Reserve Bank come into force on a date not later than the first of January, 1931.[2] Could not a similar saving be found by curtailing the absorption of gold on the part of India for non-monetary purposes? Unfortunately there is no evidence to

[1] Prepared in the Finance Department, India Office, London.

[2] Before this Act, Government could refuse to give gold or foreign exchange in support of the rupee at its lower gold point. Now it is incumbent by Statute on Government to issue either gold or sterling exchange. This Act also fixed 1*s*. 6*d*. as the statutory value of the rupee.

warrant an answer in the affirmative. The stock of gold in India in 1835 was £56,000,000, in 1900 £200,000,000, in 1910 £252,000,000, in 1919 £372,000,000,[1] and to-day in the neighbourhood of £550,000,000. The only remedy for gold hoarding in any country is increased education and increased facilities for banking, but, as in France, the habit is very deep-seated and cannot be suddenly changed.

There are other methods of economising the use of gold. With the development of bourses in Europe and America and of securities with a world market, the transfer of such securities is an alternative to the shipment of gold. With this Great Britain was familiar in the war. Another method, advocated by Professor Cassel, is the centralising of gold in the two large gold centres of the world, London and New York. Central banks could also cut down their demands for gold cover. Professor Sprague expressed the opinion that the Reserve Banks of the United States could carry on with a reserve of 50 per cent. in place of a reserve of 70 per cent., and this would release \$800,000,000. By the substitution of Federal Reserve notes for gold certificates in circulation, the \$800,000,000 could be increased to \$1,200,000,000 or even \$1,500,000,000, and this would not mean the contraction of credit. This freeing of excess reserves would be sufficient to make good any deficiency in gold production for some years, and is an excellent example of the possible economising of gold by the readjustment of reserves.

G. FINDLAY SHIRRAS

Gujarat College,
University of Bombay.

[1] Vide *Indian Finance and Banking* (Macmillan), 1919.

RECENT PAPERS ON CARTELS

League of Nations. International Economic Conference :—

Report of the Trade Barriers Committee of the International Chamber of Commerce.

Cartels and Combines. By DR. KURT WIEDENFELD, Leipzig.

Methods of Economic Rapprochement. By PROF. EUGENE GROSSMAN, Zurich.

Cartels and Trusts and their Development. By PROF. PAUL DE ROUSIERS, Paris.

International Cartels. By PROF. D. H. MACGREGOR, Oxford.

Rationalisation in the United States. By the HON. D. HOUSTON.

La Conférence Internationale des Cartels. By YVES-GUYOT. (*Journal des Économistes*, March 1927.)

Internationale Kartelle. By DR. R. LIEFMANN. (*Weltwirtschaftliches Archiv*, April 1927.)

Progress in Economic Understanding. The Economic Importance of Cartels. By DR. H. ERTL. (*The Central European*, Vienna, April 1927.)

Cartels and Democracy. By F. DELAISI. (*Foreign Affairs*, April–May 1927.)

THE international Steel Cartel had a good Press, and the idea of further moves in this direction obtained a remarkable publicity in a very short time. The Steel Cartel had two things in its favour—it was a form of agreement between Germany and her former enemies, so that it could be proclaimed as an achievement in pacification; and it was public, both in the sense that its terms were unconcealed, and in that it had a semi-official support. Dr. Liefmann shows that such agreements have really a long history; they are even now numbered by the score; but they lurked in an atmosphere of secrecy until the Steel Cartel, favoured by its special environment and seemingly special significance, gave to the whole movement a confidence which brought it into the open, and claimed for it the title of Rationalisation. Since then, its Press has been somewhat too good; the iteration of this term has become tiresome, so as to cause a reaction of suspicion that judgment is being rushed and captured in favour of what is

certainly a formidable extension of the combination movement. We *are* "afraid of big business" if we do not examine its new self-definition, so that it "gets away with it," and is able to speak as if the "Trust question" were an out-of-date panic.

These papers are contributions to a debate, occasioned by the Economic Conference, on one form of international combines, those which are reached by way of agreements. There is, of course, as Dr. Liefmann emphasises, a great background of direct international capitalism created by the ramifications of "Concerns." These need not, however, be monopolistic; agreements are picked out for special consideration because adherence to them *imposes* restrictions, at least in the usual cases, on output or markets, and is intended to exchange between the parties monopolistic spheres in some sense.

There are area-cartels which distribute the trade, and output-cartels which allot the production, and there is a general assumption that the debate is concerned with these, and especially with the former. It would have been a good thing if the case for "cartels of conditions" had been included. Competition is rarely referred to *sans phrase;* it is anarchic, chaotic, excessive, unregulated, unlimited, and so forth. But it is the purpose of "condition" cartels to regulate methods of trading; many relationships of this kind already exist, as regards conditions of sale and credit, standardisation, and, in the United States, trade practices. In several of these Memoranda, the formidable structure of an international province or output cartel appears in the end to be justified mainly by the claim that it may stop dumping. This is Liefmann's point, and also Wiedenfeld's. Since national cartels accentuate this problem, there must be an international delimitation. But would not a condition-cartel suffice for this? Let them define dumping, and agree to bar the practice. In the same way, if international agreements will facilitate all kinds of consultation, exchange of information, and so forth, is it not worth while trying such an organisation as will just do that—what Liefmann calls a *Verein?* It would seem that the International Chamber of Commerce, and the League of Nations, might between them arrange many forms of agreement and consultation, including consultation for the reduction of trade barriers, which would be a less exceptionable way of doing some of the chief things which are presented as excuses for province or output cartels. In this respect, Mr. Houston's Memorandum is of special significance. In the United States, the cartel agreement is not allowed; it is a continental area, with giant businesses, as

in Europe; but they may not delimit that market, so that their "rationalisation," as he reports on it, applies to an environment of conditions surrounding competitive trade, and they are neither "anarchic" nor unprosperous.

It is, however, the stronger agreements which are discussed in these papers. They are international in the sense that the parties to them are representative of different countries. Their internationalism, as a question of what they do, and whether that corresponds to the most "rational" distribution of work, is a question of proof, not of definition. Will they make the best terms for their national industries, standing upon their own tariffs, or will they try to allot production so as to correspond to, and gradually reach, a minimum tariff position? This latter sense of internationalism seems to be claimed, when it is argued that they will render tariffs superfluous. But let us hear Dr. Wiedenfeld. The question to be considered in each case, he says, will be "not loyalty to the agreement, but simply the mathematical calculation whether the reduced cost of production anticipated from increased output does or does not exceed the amount of the conventional penalty." In policy, this is nationalism, not internationalism. It does not leave much content in the idea of rationalisation. It is not what is meant by "economic pacification"—Dr. Grossman's phrase—or by the "nations getting together."

The consensus of opinion in these papers is favourable to the agreements, and in some of the longer ones a general defence is offered of Cartels as a whole. But the international extension does raise new questions; partly because the consumer does regard the foreign producer as his alternative, partly because of the problem of an authority for control. The dissentient is Yves-Guyot. He is not to be served by the mere word rationalisation,—"lourd neologism imposé par l'Allemand"—of which there is such a cult. It is not "rationalisation" but just "ration" of production that is in view, and what is that but restriction? Then "qui restreindra la restriction?" He foresees the transfer to a wider sphere of the conflict between labour and capital, one restriction met with another, two socialisms between which output will take its chance. His vigorous critique, of both national and international cartels, is inconclusive, unless he holds that no form of producers' agreement can improve at least the conditions of modern competition.

Important contributions are made in the other memoranda to the history of the Cartel Movement, Dr. Liefmann's review being

by far the most substantial. But their main interest is in the treatment by the apologists of international agreements of the question of tariffs. These agreements have, in more popular writings, been commonly assumed to be in some way a substitute for, or alleviation of, existing trade barriers. But the argument is very obscure. A substitute for tariffs leaves the position as it was. A reduction of tariffs, somehow obtained through trade agreements, might be obtained by a more direct method. Something which renders tariffs ineffective, while they exist, is a hard proposition. The reader may judge from a summary of the arguments.

The Trade Barriers Committee desires the abolition of prohibitions of import and export, and the free movement of raw materials. It favours international agreements, because they "may contribute to the solution of tariff problems," by preparing the ground for official commercial agreements, and enabling a more rational distribution of production. "Ruinous competition" would be eliminated; abuses would be remedied by "giving rise to fresh competition." Not much comes of this. Reservation of markets is a common clause of international agreements, and means a prohibition of import. In what way does the ground need to be prepared for official commercial agreements?

Dr. Grossman replies to the question of direct official agreements. They are now being concluded for periods that are too short. Besides their instability, bargained tariffs may only put up duties. He does *not*, therefore, wish to prepare the way for official agreements. He thinks that producers' agreements can be made more rapidly. What will they ensure? "The division of labour on international lines, the advantages of which have so long been vaunted by free-traders, but which cannot be obtained by diplomatic negotiation, will at last be brought about by co-operation among producers." International cartels "will be able to decree that any factory or workshop which, on account of its geographical situation or inadequate equipment, is incapable of production at a low cost, shall be closed down on payment of reasonable compensation to its owner." Thus "protection will be rendered harmless by international co-operation." This at first seems to suppose the establishment of the conditions which would exist in the absence of tariffs. But the essential feature is the allotment of markets; "they will successfully allot markets among themselves, fixing the shares of the industry in each country." Much international traffic will by this rationalisation become needless;

"it will not be possible to avoid all crossing of frontiers," but "the cartelled producers might create a central fund, which would refund to exporters the cost of freight and customs on all international consignments authorised by the cartel." The League of Nations would have the function of dealing with abuses of power. This means a continental, rather than an international cartel; apart from the administrative scheme, which may be taken as indicative of the kind of thing in view, the question is of tariffs. Do they cease to be barriers if (*a*) as a result of them national markets are locked up, and (*b*) they still remain levied on the trade which goes? Considering the great differences in the size of European nations, why is it the *international* traffic that it is "rational" to reduce to a minimum—except that tariffs compel the proposal to take this form? How, for instance, would the Austrian position be thus "rationalised"?

In Dr. Wiedenfeld's impartial and careful Memorandum, no such great claims are made for cartels, and he perceives the difficulties of their extension beyond the area of business patriotism. Most cartels are still loosely constructed, and it is premature to hope for stability of policy on any wide scale. But he thinks something can be done to correct certain instabilities, especially those connected with dumping. Quite a mild form of agreement might be framed so as to deal with excesses in this direction, but Dr. Wiedenfeld repeats Dr. Grossman when he says that "in all producing countries, a protective duty on articles controlled by an international cartel is losing its *raison d'être*." And where Dr. Grossman's word is "harmless," and Dr. Wiedenfeld's (in effect) "useless," Dr. Liefmann's is "superfluous." "A market-cartel," he says, "works more exclusively than a tariff." One is tempted to stress this point, in view of the nature of the claims made for international cartels, in spite of the fact that such distinguished writers have so frankly anticipated the objection by admitting it. No one can read the papers in relation to each other without feeling that the anticipation of this broad objection has not disarmed it. The position with which we are left is not easy to understand.

Dr. Liefmann at once qualifies the admission by his statement that international cartels are transitory, and legally insecure, so that the intensification of tariffs will not be lasting. Further, he points out that there will be non-adherents, so that there will still be *raison d'être* for the tariff. And, finally, that "when international cartels are in prospect, the tendency toward protection can be intensified, in order to create as strong a bargaining

position as possible." Now this obviously applies also to the renewal of cartel agreements already running. This is admitted, more or less casually, by the other apologists. Again, in reference to the claims of rationalisation by cartels, all this tangle is very confusing.

It is also an important consideration that the producers in a single international cartel are unlikely to be able to bargain the tariff rates on their own products alone. The entire tariff is the national bargaining instrument. The rate on one thing is bargained against those *on other things*. If private arrangements are to lead to reduction of duties, relations between international cartels would seem to be necessary, in order to prepare a programme nationally acceptable.

A single cartel might, however, agree on anti-dumping arrangements. This is the aim which Liefmann has mainly in mind. The order of causation, he says, is: tariffs and domestic cartels—international dumping—international cartels—dumping in third markets—higher tariffs in these markets—new producers therein—general over-production—international output-cartels. But these last have great difficulties. So the most that can be hoped for is some restriction on dumping, which is the chief "falsification of the world-market." If this can be carried out, home prices may fall somewhat, as foreign losses are reduced. His matter-of-fact analysis, full of intricate give and take, seems to result in letting the whole matter work out somehow its own solution.

Dr. Ertl holds that anti-cartel legislation must fail, because it is hopeless to define unfair prices. He repeats the view that international cartels "will make practically invalid Customs barriers and numerous other obstacles," while stating later that "a cartel is the only way of defending the home market against the inroads of foreign competition," and that in regard to exports "a cartel may prove the only way along which certain markets can be secured and the manifold customs, obstacles, and restrictions can be surmounted, which are still in existence." This is all very obscure. How is a market secured except by restrictions, *i.e.* obstacles? At home, he draws a parallel between the policy of laying still the less productive works, and the unemployment benefits of workmen. He says it is a saving of the nation's capital if prices are raised so as to keep the unremunerative works in being; but also that, since a cartel "does not ruin factories, but lays them still," and the owner is allowed "a permanent share in the profit of the remaining enterprises," therefore a

cartel "saves portions of the national wealth which otherwise would be lost beyond recovery." Writing as Assistant-Secretary to the Vienna Chamber of Commerce, he thinks that Austria may find a remedy for impoverishment if progress in economic understanding removes private prejudices against cartels, against which she has no effective legislation.

Mr. Delaisi has a new idea. Cartels of producers alone will become an oligarchy, more dangerous if they are international. His remedy is a tripartite organisation, immediate consumers and employees being summoned into the price-fixing deliberations of the producers. And if these three interests should only conspire to hold prices too high, the wholesalers "will not be slow in reporting that the (final) consumer is limiting his purchases." There will be a reaction, "the latter cartels recalling the first to moderation." The producers of rolled steel will be in the deliberations of the raw steel cartel, and will in turn summon to their deliberations, besides their own employees, the producers of machinery. Certain compulsory cartels in Germany have a measure of public control; but as a rule, producers of A products have summoned those of B products to their deliberations by buying them up, and forming a vertical system in addition to the horizontal system. This has not safeguarded the final consumer, whose reaction by refusing to buy, as Mr. Delaisi puts it, is simply the whole problem over again.

Professor de Rousiers, apart from an historical sketch, offers to the debate only some very general thoughts on agreements. He rightly points out that there could be international agreements without tariffs. But the existing question is, whether such agreements will intensify or lessen the barriers to trade. He does not handle this problem. He holds that all contracts limit the scope of the contractors, but are nevertheless examples of commercial freedom. "The engineering firm which accepts a large order sufficient to keep its works busy for a given period thereby relinquishes its freedom to accept other orders during that period." But, surely, it is something else with which the debate is concerned. Lawful agreements he defines as those which make for stability, which are public, permanent, and independent of the official authorities. All this raises, without settling, questions.

One is left with the impression that, as soon as we go beyond cartels of conditions, and consider cartels of restriction, there is a conflict between two ideas of rationalisation. Protection is quite independently defended as a form of applying this principle.

So that the ideal of the New Rationalisation can only be urged subject to certain assumptions; or, is brought in on a certain level of the plan, and not at the fundament. Its defence, then, makes play with the claim that tariffs will be "unnecessary," a word well designed, until it is scrutinised, to soothe both Protectionists and Free-Traders. If tariff policy had hitherto been known as "restriction of foreign trade," and the word "Protection" had been recently substituted as one of more positive and purposeful connotation, then we would have a fair parallel to the change which has turned the pre-war problem of "monopolist organisation" into a form of "rationalisation."

D. H. MACGREGOR

REVIEWS

The National Income. 1924. By A. L. BOWLEY, Sc.D., and SIR JOSIAH STAMP, G.B.E., Sc.D. (Clarendon Press, Oxford. 1927. Crown 8vo. Pp. 59. 3*s*. 6*d*. net.)

FOR an account of the National Income we may seek the answer to either of two questions: What do we receive? or What do we spend? If we include savings with spendings the two roads of approach should lead us to the same end. The former line of inquiry was adopted by Dr. Bowley in his estimate of our National Income for 1911, and the monograph now issued follows in the main the same method. An interesting estimate of the total to be reached by the latter method forms part of the material reviewed in testing the conclusions reached. It is, of course, based on assumed average rates of price increase for the main sections of goods and services which form the equivalent of the part of income which is spent. Whether a more definite estimate of these price changes will result from a survey of the results of the Census of Production for 1924 is a question, the answer to which must await the completion of the publication of those results. In the meantime it would be rash to challenge any such carefully considered estimate as that given by the authors of the monograph before us. We note, by the way, that in their references to the First Census of Production the authors have relied on treacherous memories, and in referring to 1906 (Introduction, p. 9) and 1906–7 (p. 55), they may have recalled the date of the Act of Parliament without remembering that the Census related to a period not begun when the Act was passed.

In their general conclusions as to the proportion between the National Income of 1911 and that of 1924, it is unlikely that the authors will find reason for very serious correction as fuller information becomes available. That some minor adjustments may be necessary is illustrated by the fact that the figure of £2,310 millions given in the 1924–25 Report of the Commissioners of Inland Revenue as the estimated "Actual Income," corresponding to the Gross Income for 1924–25 brought under review, is replaced in the Report for the following year by £2,400 millions. As it would appear, on the authority of the authors (p. 16), which

on this point is certainly authoritative, that the income for 1924 will correspond best to the assessments of 1925–26, it will be necessary to wait for the Report for 1926–27 to ascertain whether the estimate of £2,375 millions for 1925–26 given in the 1925–26 Report needs adjustment, and to what extent, consequently, the calculations of our authors, based on £2,310 millions, may have to be modified. Among the Income Tax data used, the derivation of the figure of £1,110 millions for Schedule D from Table 66 in the 1924–25 Report (cf. p. 16) requires to be explained, since some information not contained in that table, or in the corresponding table of the more recent Report, appears to be necessary for that purpose.

Special inquiries have served for a fresh estimate of the income of the group of persons, diminished in numbers since 1911, who are neither wage-earners nor in enjoyment of an income above the minimum subject to tax. Other special information, either furnished to the Colwyn Committee or derived from sources not readily accessible to ordinary readers of the pamphlet, has placed its authors in a position more favourable in some respects for ensuring reliable results than that of Dr. Bowley when his earlier estimate was in course of construction.

The results, so far as published when the pamphlet was prepared, of the Wages Inquiry relating to 1924 have provided material of great value for the purposes of calculating the income of the wage-earners. It appears that the numbers in the several industries, or rather their changes, were "estimated by a very detailed study of the occupation statistics in the censuses" (p. 32). As the wage averages for 1924 relate to all occupations in the several industries, it may be that the grouping of occupations will not furnish numbers suitable for association with those averages. Only a very laborious calculation could determine whether the aggregate wages income for 1924 of £1,600 millions, resulting from the authors' calculations, would be affected by the substitution of industrial aggregates for figures derived from occupational classifications.

One point of some interest in connection with the wage aggregate is the £40 millions included in it in respect of the wages of soldiers and sailors abroad. In the remarkably useful comparative statements on pp. 46–7, no part of the earned income is shown as derived from abroad, and the income shown under "Unearned income" as "From abroad" appears to relate entirely to the yield of invested capital. At least a considerable part of the £40 millions must be derived from sources outside this

country, and it is included as a whole in the disposable income in Great Britain and Northern Ireland, so that the usual care in distinguishing different categories would appear to have failed in respect of this item.

Everyone who wishes to discuss any problem relating to the aggregate income of the country should study with care the final chapter in which occur the tables just referred to. The differences between taxable income and social income in particular need to be borne in mind, and the relation of earned to unearned, of income originating at home and income from abroad, of the income of persons and that of corporations are all matters in which both the definitions and the arithmetical results of the authors will be found of the highest importance. The conclusion that " the *real home-produced income per head (when duplication is eliminated) was very nearly the same in* 1911 *and* 1924 " (p. 56) is among these important results. Whether it will be disturbed by the results of the Census of Production remains to be seen, but in any case it appears unlikely that the conclusion will be varied that wages represented fully as large a percentage of the total income in 1924 as in 1911.

A. W. FLUX

An Economic History of Modern Britain : The Early Railway Age, 1820–1850. By J. H. CLAPHAM. (Cambridge University Press. 1926. Pp. xviii + 623. 25*s*. net.)

READERS of the surveys of the economic history of modern England must often have thought, and some indeed have expressed the view, that many common generalisations require qualification ; that the authors ought at least to have attempted to put their statements to the test both quantitatively and regionally. They may have thought—or even said—this ; but for the most part they have allowed the matter to rest there. Not so Dr. Clapham. He has for some years been testing statements and analysing evidence with characteristic thoroughness. Reports of commissions and select committees, census returns and other official documents have been carefully sifted always with the questions " How many " and " Where " before his mind. Now he has given us the first instalment of *An Economic History of Great Britain*, a work which he proposes to continue in a further two volumes. The point of departure, as far as one can be taken in economic history, is the year 1820. The present volume is divided into two parts, the first being a survey of Britain on the eve of the railway age, and the second an account of the early railway age itself. The first part

is considerably longer than the second and somehow distinctly more attractive.

The writer of economic history has to choose between dealing with his subject chronologically or topically. Chronological treatment assumes a unity of the subject which must involve some view of the underlying causes of economic development. The division into sections--agriculture, industry, commerce and finance—does not go beyond the postulate that these matters fall within the limits of any definition of economic history. There is no question of an economic interpretation of history as a whole. Dr. Clapham here, as in his *Economic Development of France and Germany*, adopts the second method, dividing the subject-matter into sections more or less complete in themselves. It has the enormous advantage that the exhaustive treatment of a single problem can be undertaken; but it demands constant cross reference, if the relations of problems to one another are to be kept clearly in mind. Railway speculation cannot be dealt with apart from the organisation of the money market or agricultural wages without reference to the Poor Law. As to the scope of economic history, Dr. Clapham makes no pronouncement, except perhaps incidentally, when he says, "The story of the movement [*i.e.* the Chartist movement] is for the social and political historian. The economist watches its flow and ebb with the vicissitudes of harvests, overseas trade, and railway building . . ." (p. 584), assuming the rôle of impartial spectator which some are very insistent that he should abandon. Economic history thus becomes a mine of information in which those who wish to maintain a thesis may find facts but they must supply their own theories. Dr. Clapham himself has no patience with hasty generalisation, however brilliant; he warns us against "historians who neglect quantities" (p. 55) and historians who "are not always well acquainted with contemporary England" (p. 454).

One of the most notable features of the book is its comprehensiveness. The author has taken Great Britain as his area, and he has kept the north of England, Wales and Scotland in view throughout, thereby necessarily correcting current impressions which are largely based on confining attention to the Midland and the southern counties. He points out that if the increase of population in England and Wales was due to the granting of allowances to the able-bodied, some explanation must be found for the similar growth of population in Scotland, where there was no allowance system (p. 54). The sections dealing with the Scottish Poor Law are particularly well done; Dr. Chalmers,

although he dominated opinion in Scotland and is still often referred to with deference, does not impose on Dr. Clapham. He might have mentioned that full confirmation of his misgivings about the condition of the poor in the slums of Edinburgh and Glasgow (p. 367) can be found in W. P. Alison's *Observations* (1840), and a footnote might have been added to the effect that the late Professor W. Smart's *Memorandum on the History of the Scots Poor Law prior to* 1845 (Report of Royal Commission on Poor Law, Vol. XXXVIII., 1909) is much the best account. Dr. Clapham is also rewarded for making his treatment comprehensive by being able to show that enclosure and improvement are not—as is so often assumed—necessarily associated (p. 137). In Scotland and Wales—and indeed in parts of England—enclosure was quite compatible with primitive methods of cultivation.

It is a difficult task to catch Dr. Clapham nodding—or his printers, to whom he pays a very well-deserved tribute in the Preface. For a book of such a wide scope and vast detail it is a monument of accurate scholarship. At the most a reviewer can only suggest an amendment here and an addition there. On p. 566 there is an awkward paraphrase of a well-known passage from Defoe placed in inverted commas and given as a definite quotation. It is twice suggested (pp. 314 *n.* and 353 *n.*) that Robert Owen may have borrowed his idea of his "villages of co-operation" from Bentham. The affiliation of the ideas of Robert Owen is a difficult question; but the fact that he reprinted John Bellers' *Proposals for raising a College of Industry of all useful trades and husbandry* (1695) in the course of his campaign suggests another source for his plan. There is a statement (p. 399) that the North Staffordshire Railway Company . . . managed a railway and waterway . . . to the satisfaction of the country of the Five Towns for over eighty years." "Satisfaction" seems much too strong. Traders and manufacturers long complained of what they considered to be excessive charges by the Company. During the war evidence was submitted to the Iron and Steel Industries Committee to the effect that the Company had allowed the canal to fall with disrepair, and it was suggested that in the interests of the area the railway should be merged in one of the larger systems. The opinion which Lord George Bentinck ascribed to Canning, that the poor laws saved England from Revolution (p. 351), might be reinforced by the quotation of J. R. McCulloch's view in his *Principles of Political Economy* (1825), that "without it (*i.e.* the Poor Law) the peace of society could not be preserved for any considerable period."

All subsequent writers will have to take Dr. Clapham's work into consideration. When they speak of "the disappearance of the yeomanry" they will have to define "yeomanry" and distinguish the senses in which contemporaries employed the term. They will also have to be chary about the use of the word "disappearance" in view of the evidence here adduced from the census of 1831 (p. 113). More definite limits to the prevalence of the "Speenhamland" system than the general statement that it was found in all countries in England and Wales except Northumberland and Durham will have to be given. The examination of the answers to the questionnaire circulated to poor law authorities by a parliamentary committee in 1824 (pp. 123–4) enables Dr. Clapham to draw some important distinctions between methods of relief of the able-bodied. Figures of movements in prices and wages also destroy the widespread impression that until the middle 'forties the condition of the working classes was one of "increasing misery." The argument that the Corn Laws were limiting the overseas markets for British manufactures is shown, while theoretically sound, to have been of no particular relevance in the period (pp. 476–79). But it is impossible to notice all the points where this book demands some revision of accepted views. It is greatly to the author's credit that he does not waste time in using his material to score points at the expense of his predecessors. He is more interested in establishing the truth, where evidence can be found, than in carrying on a controversy. This book by its very thoroughness ensures a more precise treatment of the economic history of the first part of the nineteenth century, and it is to be hoped that Dr. Clapham will be able to complete his project within the next few years.

J. F. REES

The University,
Birmingham.

The Economic Background of the Gospels. By FREDERICK C. GRANT. (Oxford University Press. 1926. Pp. 152. 7*s*. 6*d*. net.)

The Christian Ethic as an Economic Factor. By SIR JOSIAH STAMP. (London: The Epworth Press. 1926. Pp. 106. 2*s*. net.)

THESE two books, with their calm, cogent reasoning, are, together, an opportune and weighty contribution to a present prominent debate. As we understand them they reinforce one

another. The moral conveyed is similar if not identical. For the comparatively unknown, but competent and informed, American scholar and the English publicist, who, with the rare dual experience of great affairs gained from high status in the Civil Service and responsible administration of large business enterprise, coupled with conspicuous general ability and a trained special aptitude for the handling of statistics, commands the ear of our own Press, are sympathetic rather than hostile to those whom nevertheless they would admonish. They would, warning them away from pitfalls or morasses, and cautioning them against seductive but misleading "will-of-the-wisps," set them on the right road towards the common goal at which they aim. It is true that Sir Josiah, delivering the first lecture for the Social Service Trust, may seem at times to feel a disquieting qualm that his audience, expecting him to bless, will deem him more apt, or at any rate more busy at this juncture, at the opposite procedure; and, correspondingly, Dr. Grant lays his stress on negative rather than affirmative conclusions that, resting on established record or buttressed by legitimate conjecture, counter, or do not support, some conceptions fondly cherished now in the warm hearts of those who might indignantly disown the reproach of the possession of cool heads. Still, readers of the ECONOMIC JOURNAL from a detached position will allow that the books furnish a forcible and timely commentary on current talk confusing Christianity with Socialism.

In this review we shall summarise their contents, with the hope that the originals will be consulted. Dr Grant, starting with an investigation of historical antecedents and sketching in outline the Persian and Greek periods, the times of the Maccabean kings, and that of Herod and the first century A.D. in his opening chapter, comes in his second to a close, full survey of the actual economic condition of Palestine, with reference to the land, to labour, trade, finance and population, and, specially, to the heavy taxation of the Government, imposing a burden that with the added incumbrance of religious dues was a crushing weight on comparatively poor resources, and then in his third and final chapter he is enabled thus to draw an impressive picture of the "economic background" of the Gospels, exhibiting in the strong light cast thereby the deep significance of some typical utterances of Christ. From an earlier state which, by contrast, was easier and more prosperous he shows that coincidently with the coming and teaching of Christ, an "increasing tension" was produced by excessive numbers in the cities, and by a "declining

productivity of the soil," "climatic" and "geologic" in origin, which "human ingenuity" could not "circumvent"; and this awkward conjuncture was aggravated by "twofold taxation, civil and religious, beyond the powers of utmost thrift to sustain." What wonder, then, if "pre-Christian Jewish Messianism" rested on the "disappointed hopes of a buoyantly optimistic nation"? It was not surprising that the "one outlook" should be "national autonomy following liberation from the hated yoke of foreign sovereignty." It was probable, if not inevitable, that a "soil renewed in fertility," a "new and divinely ordered" in place of the "old, uncomfortably overcrowded" Jerusalem, and a "righteous king of their own" content with the "free offerings of his happy people" should constitute the "popular Utopian expectation," out of which arose the "vision" of a "Kingdom of God" with a "heavenly Messiah" who, ending the present order and holding the "Last Judgment," would "inaugurate the age to come." The "conditions scantily reflected" in the Synoptic Gospels, and in "sections" of the fourth Gospel, and in the Acts and the Epistle of James, were, the author of this suggestive thesis argues, those reflected also by earlier and contemporary Jewish literature. But nevertheless, he maintains, Jesus, faced with this economic impasse and these popular sanguine hopes, exhibited "little concern" for the "immediate political future," and, in fact, as an illustrative example, the "twofold taxation" did not rouse in him "furious resentment." He counselled no revision of the processes of industry or trade, and he was a "social revolutionist" in the broad sense alone, that the "ethical principles" which he advanced would be "revolutionary in their ultimate effects upon society." It was not "ameliorative alteration of the structure or machinery of the social order or its existing institutions," but a "complete revision of human standards" and the "whole-hearted adoption of new principles of living" at which he fixed his aim and directed the full stream of his exhortation.

Such are the pith and marrow of this convincing essay. No doubt the significance of injunctions to render to Cæsar what was due had been brought out before, and the spiritual import of Christ's teaching discerned by authoritative expositors. But Dr. Grant's addition seems to us considerable and pertinent owing to the strong relief given by his fresh setting and full presentation of the "economic background." So far as we can judge he has approached, examined and interpreted the evidence available in a scholarly temper and demeanour, anxious to get

and sift the truth; and we are sure that the vast majority of those who hear the Gospels read in church or chapel or elsewhere, and not a few ardent Christian Socialists of our time, have from the outset been almost wholly ignorant, and remain still passively unconscious, of the actual environment of economic circumstance in which Christ lived and spoke. Dr. Grant himself observes that he has "singled out" facts possessing a "significance easily overlooked by the casual reader and even by the student unless particular attention has been directed" to them. And, for our present purpose, his account, supplementing *a fortiori* some previous recognition, corroborates the moral to be drawn from Sir Josiah Stamp's searching outlook on the problem as it appears to-day. In that luminous review he "touches" "fundamental issues of a general character" "overlooked" or "maltreated by most exponents of the Christian ethic in their attitude to daily affairs." "Many earnest minds," he says, "are at sea," "without rudder or compass," "misdirecting their efforts, or working energetically to useless purpose when so much awaits them which would amply repay their thought in practical achievement." For, he argues, the "injunction that Christian principles must be made to prevail in industrial and social life" raises "certain presumptions without duly weighing them," and "speeches, conferences and handbooks" accept or advance "assumptions" without "testing them." A "tendency" is thus created to "ignore" "fundamental considerations," to which he would recall his hearers.

The kernel of his argument may be found in the classification of "economic factors" on p. 24. They are there divided into "natural," "social" and "human." Under the first heading come the land, the seas, and climatic conditions. The second division comprehends (*a*) constitutional systems, (*b*) codes of law, (*c*) fixed customs and religious sanctions, (*d*) "gregariousness" finding expression in associations, unions, societies and opportunities for collective action, and the contrary "desire for privacy," and (*e*) accumulations of savings in the past, factories and plants. In the third, last class are (1) physical necessities and differences; (2) family life, domestic affection, love of home or change; (3) motives to work, to consume, to save, motives of emulation, vanity, self-sacrifice, and (4) ability to discover and organise. Taking these factors, noting how differently they are compounded, and what change in them would imply in the enunciation of economic principles, he points out that a "large number" are "quite insusceptible or im-

pervious to change under the influence of the Christian ethic." The whole of the first group and the important category of the accumulations of savings in the past in the second are "quite unchangeable." "Slowly and over long periods" ethical considerations can change the other four categories in the second group. In connection with the third he is careful to discriminate the manner and degree in which change can or cannot be thus brought about. Many shrewd, if not very encouraging, hints are thrown out by the way, and the conclusions are reached that the extent to which an economic principle can be modified hinges on the relative importance of the "human motive factor," and in general must be the result of change in the average, not merely in the individual, standard, and that the effect may work out by increased output, by slight modification of the distribution of wealth, by altering the feeling with which that is regarded, or by preventing undue advantage accruing to one section "in a key position" at a time of transition or disturbance.

A test case may be given in his judicial handling of the common indictment of society advanced by Christian teachers, preachers and reformers in a plea for the "economic betterment" of the "average man." Preliminary ambiguity arises from relativity of standards of right livelihood in point of time and place. But, leaving behind this shifting gauge, statistics, which permit of no avoidance or escape, prove that the "economic millennium does not lie along the line of redistribution and equalising of the present total" in this country at the present moment. In brutal naked truth "there is not enough to go round." You are therefore driven to the conclusion that ethical factors, to be of real avail, must increase output; and here, while there may be abundant possibility, the discernment of the proper point at which to influence and change economic tendencies by the motive factor is a "matter of fine discrimination and very close and hard work." Sir Josiah, for example, negatively draws our notice to such neglected considerations as the consequences of "free demand as a central factor of modern life," where people who cannot possibly know each other exchange their products. And, affirmatively, he reaches the decision that the "greatest work of the Christian ethic is the slow"—perhaps, he allows, it will be deemed the "timid and prosaic"—process of "individual character building." "Only by a general raising of human sentiment to deepen spiritual quality and to carry it over a wider field can the factor of human motives and mutual trust be sufficiently changed to have an economic result."

This measured issue of the survey of the present is much the same as the outcome of Dr. Grant's historical exploration, when he declares that Christ, being no social revolutionary, launched no immediate programme of reform. But wholesome correctives as they may be of misty, hasty thought and loose, superficial knowledge, they will not, we fear, be very welcome in the circles they might advantageously instruct. They are too cold a douche of stern logic and hard fact for those who prefer the hot vapour of denunciatory enthusiasm. The intervention recently of some bishops and others in the coal dispute, where it is now agreed with tolerable, if unfortunately posthumous, unanimity that the miners, or their leaders, were "fighting against inexorable economic force," can scarcely be regarded as a favourable omen. It remains, however, for impartial students and wise statesmen to appraise the solid worth of the reasoned statements of the case contained in these two noteworthy books.

L. L. PRICE

The Tables Turned—a Lecture and Dialogue on Adam Smith and the Classical Economists. By J. BONAR. (London: P. S. King & Son. 1926. Pp. vi + 52. 2s. net.)

THIS lecture—one of seven at the London School of Economics commemorating the hundred and fiftieth anniversary of the *Wealth of Nations*—"curtailed on delivery," is here given at full length, and the numerous references supplied. The profound, large erudition of the lecturer, illustrated in this as in all the scholarly products of his exact, industrious pen by punctilious citing of chapter and page, makes thus a welcome addition to the tribute due, as often as occasion offers, to Adam Smith. Although Dr. Bonar contrives dexterously to show, with apt unconventionality, in the "dialogue," which he modestly calls the "less heavy," but which we should *sans phrase* term the "light," half of the discourse, "in what a changed world we live since the days of the Great Founder," he does not fail to exhibit there a living portrait of the shrewd, determined Scot as the keen advocate he was in truth, stubbornly tenacious in holding his own ground and no less eager and adroit in getting behind the armour of his enemies by offensive thrust. The patent defect of his high quality was that he was the last perhaps to "suffer fools gladly" and was too obviously ready to impute knavery as well to those with whom he disagreed. If there be a taint or blemish in Dr. Bonar's vivid presentation it is, as we judge,

that the evangelical fervour of conviction in the "gospel" of Free Trade, of which he makes no secret, intrudes into a picture where varying shades and divers colours of criticism and objection have been justly disposed and faithfully laid in. None the less we should, disowning for ourselves so strait a creed, cordially subscribe to the "proper respect" enjoined by the quotation on the title-page. For shining and enduring merits outweigh, in the scales of immortality, any dimming or detracting faults due to passing circumstance or human frailty; and, if we may be so presumptuous, we could pardon much in gratitude for the direct, plain, easy speech and homely, pertinent illustration, happily here reproduced, that contrast with the intertwined dialectic, hard technique and esoteric phraseology favoured, with unfortunate consequences as we believe, by some later expositors, and, as we also think, too strongly current in influential coteries to-day.

The present lecturer's appreciation, implicitly conveyed perhaps rather than positively declared, in the earlier part of his discourse, commands our admiration and approval. With exhaustive assiduity he pursues the eluding import of the epithet "classical" through many different significations given by "orthodoxy" and dissenters. Among them, it should be noted, is the severe exclusiveness of Marshall's interesting dictum, which would rule out J. S. Mill because he was not "architectonic" in matter or form, though it would, we feel, include Marshall himself perhaps alone of the writers of our time; curiously enough, we venture to pronounce, for partial rather than complete achievement of "architectonic" building, or reconstruction. His design and purpose, like his mental equipment, were such, if, as Mr. Keynes has hinted, he was weak rather than strong in actual execution. Having, however, no doubt at all that the *Wealth of Nations* is a "classic," we are also certain that it has got what we consider to be the yet more lasting and more rare repute of being recognised as a "popular classic." For Adam Smith can be, and has been, understood, so as to be accepted or denied, by men and women of the world at large, downwards in rank and date from statesmen like the younger Pitt, who boasted, with open pride, to be a "pupil" This is the addendum we should offer to Dr. Bonar's illuminating *aperçu*, which is, as he doubtless intended, of the pattern and quality fit for an address to students by a scholar. As such we could bestow no higher or more genuine praise than to declare that by its width of knowledge and the fine standard of its judgment, its stimulus

and suggestiveness, and its abundance of recondite and appropriate allusion, it is worthy of the theme and of the occasion. We are glad that in this more permanent form it should henceforth take its place on the shelves of economic libraries; for it is no negligible, and, differing from the lecturer, we would add, no " dry," addition to economic bibliography.

L. L. PRICE

Industry and the State: a Conservative View. By ROBERT BOOTHBY, M.P., JOHN DE V. LODER, M.P., HAROLD MACMILLAN, M.P., and the Hon. OLIVER STANLEY, M.P. (London: Macmillan & Co. 1927. Pp. viii + 269. 6s. net.)

THE relations of the State to industry are always a subject of so much acute controversy and dogmatic assertion that any well-considered attempt to re-examine their bases from a standpoint which combines the merits of various schools of thought will be of great value. The outstanding example of this is the chapter in Mill's *Principles*, " Of the Grounds and Limits of the Laissez-Faire or Non-Interference Principle."

The present book recalls Mill's discussion of authoritative and unauthoritative interferences in the authors' distinction between the " opportunities " and the " obligations " of government. For the opportunities, like the unauthoritative interferences, cover such State action as provision of information and research which will assist and promote industry, without definitely interfering with it. The book is frankly written from the standpoint of a progressive Conservatism, but the case throughout is stated with fairness and moderation, and emphasis is laid as much as possible on the general, rather than the purely political, aspects of Conservatism. This is made clear in the interesting discussion of principles in the General Introduction (pp. 1–35).

The authors bring out implicitly or explicitly some important underlying principles. They make it clear, for instance, that the relation of the State to industry need not " necessarily be one of interference in enterprise." They emphasise, indeed, the factor of risks in modern industry, which is one basis of their rejection of Socialism; but they are careful to show the part that can be played by the State in assisting industrial and commercial development, and this is the object of the first main division of the book, " The Opportunities of the State." They propose, for instance, the development of an Economic General Staff. They evidently hope much from this towards reduction of industrial

fluctuations. They further discuss the application of national and local finance to assist development and, like many others, see greater danger to industry in high local rates than in high direct taxation. "It will be better to tax profits which are actually made by a high rate of income tax instead of preventing the possibility of profits by high rates." They reject the idea of a local income tax and propose to meet the difficulty by national financing and control of some services at present largely local. There is also an interesting section on Imperial Development.

The second main part deals with the "Obligations of the State." The point is emphasised that "the whole conduct of modern industry is governed for good or ill by statute," that is, that the State is definitely connected with industry and must play its part, whether it will or not. Moreover, it is fully recognised that there is a large element of monopoly in modern industry, and that this involves a different attitude on the part of the State to that which would be proper to a fully competitive régime. This is worked out also in dealing with the commercial opportunities of the State, and the authors see much to hope for from the orderly development of the horizontal combine, as compared with the vertical, which, they argue, "has been tried and on the whole found unsuccessful." They propose also some stricter provisions for dealing with the more favourably placed "monopoly" trades, than for the less favourably situated "competitive" industries, the distinction largely corresponding to that between the sheltered and unsheltered trades of current controversy. Thus they suggest compulsory co-partnership and what would amount nearly to compulsory arbitration in the former. The distinction is clearly worked out, and though open to certain criticisms, is well worth study. The authors' aim is to secure recognition of the need of private enterprise and the enforcement of a high standard of duty in industry, and seek a system which shall combine employers and employed in the promotion of production, and give a wider measure of democratic control in industry. For this latter, in particular, they hope for "a property-owning democracy," and "not the abolition of property, but its more generous extension," which they hope to secure largely through their co-partnership proposals. In competitive industry they suggest the general establishment of developed Trade Boards with compulsory powers, to secure existing standards and their improvement, which shall in time develop other functions of the Joint Industrial Council type. An interesting proposal is for trade tests to ensure efficiency. The authors' discussion of the difficulties is interesting,

but they do not perhaps allow enough for the failure of many Joint Industrial Councils to fulfil the hopes with which they were inaugurated, though the circumstances of 1926 may be more favourable than those of 1919 and the grant of compulsory powers may be helpful. The protection of the consumer—since only a suspensive veto is given to the Ministry of Labour—is also a possible difficulty, but the authors hope that in practice the system will emphasise the interdependence of industries and create a sound public opinion.

The book is instructive and suggestive and has also some interesting appendices. The authors have tried to cover wide ground in a small space, and thus in one or two places, notably the section on Currency and Credit, their treatment is somewhat elementary. They have rightly limited themselves in certain directions and make a good case for excluding such subjects as education and social insurance. In view, however, of the important bearing of trade fluctuations on standards of living, the part that the State could take in mitigating them might well have been more fully treated. Again, in dealing with their proposed Economic Staff, they do not seem always to be aware of what is already being done, like the work of the Census of Production, or the valuable periodical information, like the thirty-eight returns of the Board of Trade on industry and employment, which were published during the war. But, if in places they are open to particular comments, the authors have treated their subject ably and with fairness, and fully deserve careful study and a big public.

N. B. DEARLE

Cyclical Fluctuations. By SIMON S. KUZNETS, Ph.D. (Adelphi Coy., New York. Pp. xv + 201.)

FIGURES of the volume of wholesale and retail sales published by the Federal Reserve Board, admirable as they may be statistically, have that about them which can only be described as repellent. We are the more in debt to Dr. Kuznets for the work he has done in digesting them, in correcting them for seasonal and secular changes and presenting them in a form in which their bearing on cyclical fluctuations may be examined. The figures with which he deals extend over a period of some 67 months, covering the strongly-marked cycle whose revival dates may be taken to be April 1919 and August 1921, and the minor cycle of 1921–1924.

Dr. Kuznets deals first with fluctuations in the dollar volume

of some ten series of wholesale and retail sales, including groceries, dry goods, boots and so on. The graphs of these fluctuations show clearly-marked cyclical movements, but it would seem that they have little independent significance, as they are dominated by cyclical movements in price.

When the fluctuations in these various series are corrected for price changes, with such accuracy as is attainable, so that dollar volumes are replaced by physical volumes, the graphs have lost much of their similarity of fluctuations are generally much smaller, retail and wholesale variations may differ widely from one another; and differences in the physical and dollar volumes of retail sales may be so marked as to show that the physical volume of retail grocery sales, in sharp contrast to their dollar volume, was conspicuously high throughout the whole of 1921, a year of marked depression. This demonstration of the large measure of independence in the movement of physical volumes is admirable as a corrective of simple interpretations based on the more symmetrical movements in dollar volumes; but it makes it exceedingly difficult to discover any uniformities in the movements of the physical series by which they may be related to the business cycle. Fortunately the uniformities have not entirely vanished. It appears to be generally true that fluctuations in the physical volume of retail sales are less ample than those in wholesale sales, and that these in their turn are probably smaller than those in the output of manufacture. These are the central facts to whose explanation Dr. Kuznets devotes the latter half of his book.

He considers first the discrepancy between the size of the fluctuations in manufacturing output and in the physical volume of retail sales, and endeavours to find an explanation in variations of consumers' incomes. The general evidence that he reviews has points of interest; but its main result is only to suggest that wages, salaries and dividends are more even in their flow than is the aggregate value of the output of manufacture.

The second approach to an explanation of these discrepancies in the size of fluctuations is more interesting and more significant. Dr. Kuznets appeals first to the well-recognised principle that a given percentage increase in the annual demand for the products of any industry is likely to result in a much larger proportionate increase in the annual demand for the equipment of that industry; and applies this to show that an increase in retail sales is likely to result in a larger proportionate increase in orders to wholesalers. Thus, let it be supposed that it is the policy of the retailer to

maintain his stocks at a certain proportion of his current sales. Then, if he finds that his sales in any month have increased, and if this creates an expectation that the increase will be sustained, his orders to his wholesaler will increase in greater proportion than his sales; for he will need to order from the wholesaler not only the additional goods necessary to replace his additional sales, but also additional goods necessary to expand his stocks in proportion to the increase of his current sales. The argument, as Dr. Kuznets points out, needs to be modified by many practical considerations, but it appears to supply at least a part of the explanation of the larger fluctuations in wholesale than in retail sales. This part of the explanation is supported by a useful but more familiar discussion of the differences in the reactions of wholesaler and retailer to prospective changes in prices and the consequent differences in the variations in the volume of their orders to the parties from whom they get their supplies. The retailer, it is urged, differs from the wholesaler in that he is selling to consumers whose demand is relatively unresponsive to changes in price; his main energies are given not to watching the general markets, but to the technical processes of selling; and his profits, and therefore his buying policy, are less sensitive to price changes. It is in such reasons as these that the main explanation is found of the principal uniformities in the cyclical movements of the various series of physical sales—the differences in the amplitude of the fluctuations at the various stages of making, merchanting and retailing.

In judging these results it should be remembered that the statistical material which Dr. Kuznets has at his disposal is very imperfect. Most of the figures are samples less than 10 per cent. of the aggregates they represent, and the price corrections applied to them are of necessity very rough. But no attempt is made to conceal these imperfections, and the subject matter is clearly and concisely presented; though there are occasional errors in references, and there is, I think, no definition given anywhere of the precise meaning of the term "wholesale sales."

F. LAVINGTON

Wealth, Virtual Wealth and Debt: the Solution of the Economic Paradox. By FREDERICK SODDY, F.R.S. (London: George Allen and Unwin. Pp. 320.)

MR. SODDY in his title, and again many times in his text, stirs the highest hopes. He proposes to subvert existing doctrines

and to demonstrate novel and important conclusions. The prospect of iconoclasm undertaken by one so eminent, and the still brighter promises of positive construction which he repeatedly offers give a sufficient encouragement to traverse the widely extended floods of bombast and rhetoric which cover so many of these pages. It cannot be said that the ornamental parts of this book make up by their grace for what they lack in solid substance. Students of fine polemic literature will gain little satisfaction from them.

In his destructive passages Mr. Soddy does not appear to have a sufficiently firm grasp of the economic doctrines commonly held by present or earlier writers to make his criticisms pointed or telling. An amateur may well be forgiven for this. In his constructive part Mr. Soddy lays much the greatest stress on the importance of having a monetary unit that shall be stable in value. This point of view is very welcome; it is shared by most contemporary economists. Very few, however, will be found to agree with the methods which Mr. Soddy proposes for achieving this aim. He suggests that the Government should issue all forms of money, including credit money, and that banks should be legally debarred from any form of "credit creation." "They can lend money at interest as before provided they, or the owners of the money lent, genuinely transfer the ownership of it to the borrower and give up the use of it" (p. 198). If a bank wants to lend £100, it is to prevail upon one of its depositors to make over £100 until further notice, and so reduce its outstanding deposits by £100 to offset the new deposit created through the loan. The legal abolition of the use of credit instruments to finance an exchange of commodities certainly does not seem to be very practical. Is payment by the transfer of book entries also to be made illegal? But Mr. Soddy has special reasons for wishing to take the creation of credit out of the hands of the banks. He holds that the provision of floating capital should be rigidly separated from the provision of a circulating medium, and that under the present system banks are led astray in their discharge of the latter function by the interest which they earn in the discharge of the former. Those who find Mr. Soddy's solutions somewhat jejune may yet agree that the fact that these two different functions are performed through the same act is a genuine difficulty; and indeed the problem has been analysed with great subtlety and precision by economists of the "orthodox" school.

Mr. Soddy's other proposals are vague. He recommends

taxation to encourage saving, and, even, to enable the Government to buy up the fixed capital of the country. But he leaves much to be explained with regard to the methods of which he would approve and the consequences which he would predict.

To expect of Mr. Soddy strict accuracy in matters of fact or good general knowledge would be both unfair in itself and productive of complete disappointment in the sequel. The following quotation (p. 162) illustrates aptly the level of information which this book achieves: "Since the great banks have combined—over 90 per cent. of the business is in the hands of one group known as *The Big Five*——"

R. F. Harrod

Christ Church, Oxford.

Principes de Science Économique. Par Charles Bodin. (Société anonyme du Recueil Sirey. 1926. Pp. 644.)

In this highly abstract work Professor Bodin has sought to make more precise the classifications and the terminology of Economic Science. He has found it necessary to modify considerably, in some cases to abandon a number of theories hallowed by traditional usage, rather than justified by observation. Professor Bodin is an acute and original thinker. He never handles a subject without leaving upon it the stamp of his own personality. Endowed with a dialectical power of remarkable brilliance, he classifies and distinguishes and defines with a minuteness which occasionally is reminiscent of a mediæval scholastic. Yet his lively method of exposition saves him from being tedious. For a disciple of the Cambridge economists, the reading of Professor Bodin's work might be a stimulating exercise.

Professor Bodin divides his book into three parts. The first part consists of 55 pages, and deals with "general notions." Professor Bodin bases Economic Science on what he calls the "Economic Principle"—the search for the maximum of satisfaction with the minimum of effort, the avoidance of a greater pain at the cost of a smaller. (Professor Bodin differs from the Hedonist school; according to him, a man seeks to avoid pain; according to the Hedonists, a man seeks pleasure.) A man will take (economic) action when the effort-pain required is less than the want-pain to be relieved. An act in connection with which the effort-pain would be equal to the want-pain would be what Professor Bodin calls an "indifferent" act. The significance of this distinction will be manifest in considering Professor Bodin's attitude to the concept of Value. Closely linked to the "Economic

Principle" is the definition of Economic Science, a definition different from that of other economists. Economic Science is "the Science of the methods and calculations, which tend to reduce human pain by augmenting the efficiency and determining the expediency of human effort." More important, fundamental, indeed, for the general plan of Professor Bodin's work is the distinction (recalling the Aristotelian distinction) which he draws between "L'Économie simple" and "L'Économie complexe." The former of these bears a superficial resemblance to the "natural order" of the eighteenth-century economists. It comprises the study of the essentials of economic life, abstraction being made of the elements of contradiction which it contains. The tendency of man to indulge in harmful satisfactions and unjustifiable gains ("le prélèvement") is hypothetically eliminated. Moreover, if a clear view of the permanent conditions and the fundamental realities of economic life is to be obtained, its exposition must take no account of the individual peculiarities of particular political and legal systems. "L'Économie complexe" is the study of economic life, implying the influence of economic evils and inquiring into possible remedies. Professor Bodin feels that the distinction between "L'Économie simple" and "L'Économie complexe" makes particularly easy the transition from Pure Theory to Applied Economics. The present work is devoted entirely to "L'Économie simple," and is to be followed by a second volume, "L'Économie complexe." The real test of Professor Bodin's contribution to economic science will be provided by this second volume.

The second part of the book comprises 128 pages. The "essential elements" of economic life are examined. There are sections analysing the notion of want and the notion of "good." There is an analysis of the psychology of wants—an analysis revealing a subtle and delicate power of definition and distinction. An attempt is also made to arrive at a scientific classification of wants and of "goods." The assumption is made throughout that all the conditions of production and consumption are reduced to rest.

According to Professor Bodin, Economic Science covers the whole of human activity, pursuing the satisfaction of *all* human wants. The highest aspirations are not to be excluded from the domain of Economics. Its competence is bounded by the notion of economy (the expediency and the efficiency of effort), and not by the *nature* of the wants to be satisfied. There is an economy of self-sacrifice, just as there is an economy of selfishness. Why

should human activity be irregular, when it is a question of satisfying the noblest and highest wants? It seems impossible to find in the *nature* of wants any scientific standard of economy. This point of view, Professor Bodin asserts, is the only one which dispenses with the "economic man." The most interesting section, however, of the second part is Professor Bodin's "Theory of Capital." Emphasis is laid upon the intimate connection between a satisfactory classification of "goods" and a definition of Capital. Economists start with the correct idea that Capital is a kind of "good"; but how can they determine what kind of "good" Capital is, if they do not possess tests for distinguishing between the different kinds of "goods"? There are "mixed goods," "human goods," "natural goods," "consumption goods," and "producers' goods" ("biens satisfactoires" and "biens présatisfactoires"). Sketches of a classification of "goods" are to be found in economic treatises, but the categories of "goods" are badly delimited and their number is insufficient. The attempt to classify "goods" in relation to their functions is lacking in precision. Professor Bodin elaborates in minute detail a "synthetic" classification of "goods."

From "l'Économie statique" Professor Bodin passes (in the third part) to "l'Économie dynamique" or "l'Activité économique." This third part consists of more than 400 pages.

In the first section Professor Bodin analyses the motives behind our economic judgments ("les jugements économiques"). Economic judgments are resolved into one of three categories, "les jugements d'aptitude, de difficulté, d'opportunité" (is it expedient to act or not to act?). They all imply a comparison. Professor Bodin lays emphasis on the importance of examining the internal mechanism of the *individual* will. He inquires how the *individual*, whatever the external influences to which he is subject, strives to apply the Economic Principle. Professor Bodin asserts that no general theory of economic judgments has yet been attempted. Economists confine themselves to analysing two concepts, to which they attribute the power of synthesising our reasons for acting—the concepts of Utility and Value. The second often absorbing the first concept, economists concentrate their efforts on one object—the construction of a Theory of Value. A mistake has been made in synthesising *a priori* all our reasons for deciding and acting; in attaching them all to a single concept. Are all economic judgments, judgments of "value"? Economic judgments are always comparative judgments. But is the term "value" to be given a meaning so general that it becomes

synonymous with comparison? Is it necessary to use it every time that, after comparing two data, we proclaim their equality or inequality? Professor Bodin thinks that the concept of value cannot serve as the pivot of Economic Science. He treats of the exchange relation without speaking of "value." He replaces the term exchange value by that of price in order to express this relation, and utilises, in order to explain the relation, the concept of "economic character" (a term of his own invention). The "economic character" of a "good" is the measure in which it can be obtained in conformity with the Economic Principle. The "economic character" of a "good" is positive whenever the want-pain, which it is capable of relieving, is judged superior to the effort-pain, which its acquisition seems to involve. It is negative in the contrary case. The notion of the "economic character" of "goods" assumes that we can establish comparisons between pains and satisfactions just as mathematicians establish comparisons between positive and negative quantities. In his explanation of the exchange relation, Professor Bodin directs his attention to "utility"—this interprets the desire we have for "goods"—and "economic character"—this expresses the interest we have in producing and acquiring "goods." There is another point to note. The value of a "good" does not consist in the sum of efforts which we should be prepared to make in order to obtain it; for we always strive to give less in order to obtain more. It consists in the sum of efforts which it would be a matter of *indifference* for us to make, and which, in consequence, we are not prepared to make. The concept of value thus proclaims the "indifference" of economic acts. But since (in accordance with the Economic Principle) the acts of production and exchange are not "indifferent" acts, it is much less the "value" than the "economic character" of "goods" which conditions and determines them.

The concept of "value" is not, however, rejected entirely. "Value" is allotted a part in the play of economic judgments, but it is merely a secondary part—to fix what would be the effort-pain, psychologically equal to the want-pain, which the "good" seems capable of relieving. Valuation constitutes a judgment preparatory to the judgment of "opportunité." It is the fixing of the limit at which acts would cease to be expedient. Professor Bodin's conception of "value" is exclusively psychological. The value of a "good" is the hypothetical sacrifice psychologically equal to its utility. He feels that there has been a regrettable confusion between (1) value—a psychological notion—

and (2) price—which is a relation of exchange—a positive fact. But there is another confusion to be noted. Economists have confused the possible equality of the advantages received by exchangers and the inadmissible postulate of the equivalence of the goods exchanged. This confusion is due to the concept of exchange value. Professor Bodin regards the concept of exchange value as purely artificial and even dangerous, and proposes that it be abandoned.

The law of diminishing utility finds little favour with Professor Bodin. It implies interchangeable "goods." He insists upon the importance of quality in the determination of utility, of value and of "economic character," objecting to the convenient but dangerous practice of basing economic reasoning on interchangeable quantities. In relation to the theory of value, the Final Utility economists are solemnly reproved for "replacing the *synthesis* contained in the term 'value' by another 'synthesis' expressed by the term 'final utility,' whereas the problem of value consists essentially in *analysing the causes of value*."

Professor Bodin expounds the Hedonist theory of the determination of prices, but separates it from the Final Utility theory of value. He objects to the Hedonist school on the ground that they do not allow us to grasp exactly the working of the connection between "subjective use value" and "exchange value." The chief characteristic of his own theory is the distinction which he makes between "évaluation" and "estimation." The "évaluation" of a "good" determines the extreme limit of the sacrifices which we are ready to undergo in order to obtain it, without performing an uneconomic act. The "estimation" of a "good" determines in the mind of the exchanger the probable conditions of an expedient exchange; those which he is inclined to accept if it seems unlikely that he will obtain better; those on which he is inclined to compromise rather than abandon the chance of an exchange. An example is given of the determination of price in an ideal market. The price of a "good" (produced and brought to market) fluctuates between a minimum a little higher than its cost to the producer (the producer's valuation) and a maximum slightly lower than the valuation of the purchaser. These valuations constitute the extreme limits of the range of bargaining. They constitute "a rational delimitation of the field of economic possibilities, within which supply and demand can exercise their influence." The market price is fixed at a point between this minimum and this maximum as the consequence of bargaining, in which the *estimations* of the exchangers come into play. Agree-

ment is finally reached under the influence of the relation existing at the time between supply and demand.

The second section of the third part deals with " Les Actes et les Méthodes." Professor Bodin protests against the tendency to regard Economic Science merely as a Science of Exchanges. The ground on which the problem of economic productivity must be discussed is that of production and not that of distribution. The section contains, too, an original and valuable discussion of Division of Labour. In the third section, Professor Bodin tackles the question of Distribution, but does not attempt a complete theory of wages, interest, profit and rent. That would be to exceed the natural limits of his work and trespass upon the domain of " L'Économie complexe." The elaboration of such a theory assumes the existence of a definite political, juridical and economic organisation. Professor Bodin, however, attacks vigorously the orthodox theory of Distribution. He insists that the fact of human material progress—a progress due to the application of the Economic Principle by human ingenuity and human effort—can be explained only by the normal and necessary existence of a " net product." But if a " net product " is normal and necessary, " a net income or revenue " must also be normal and necessary. For a detailed examination of Professor Bodin's thesis, I must refer readers to his text.

J. LEMBERGER

The University,
Belfast.

Die Wertungslehre, Versuch einer exakten Beschreibung der oekonomischen Grundbeziehungen. Von DR. WILHELM KEILHAU, Docent an der Universität Kristiania. (Jena: Fischer, 1923.)

THIS is a praiseworthy attempt to define economic terms. But it is much more, for it soon appears, when the work is begun, that definitions are controversial. Though his preface shows that he tried to avoid debate as much as possible, the author will be found taking a side on disputed questions, *e.g.* the relation of final utility to value and the need of a " theory of needs " (p. 88). The Austrian writers come in for much of his criticism (*e.g.* p. 201). The searching analysis of pleasure and pain in relation to labour (Chap. VIII. p. 79 seq.) gives good suggestions.

We seem to lose as well as gain, when we try to make things simple by an exhaustive statement of details and the details lead us " over the border " of Economics. Life is not long

enough, even if our patience held out. Mr. Wicksteed, in his *Common-Sense of Political Economy*, approached that exhaustiveness; but he dealt with harder problems, showing us what in the "obvious" is not obvious. Much in the present book savours of what not only seems but is obvious.

Mr. Keilhau has followed Knapp in devising a new terminology. It was just what many of us who respected Knapp were fearing his example would bring upon us. J. BONAR

The Economics of Wages and Labour. By NORA MILNES. (London: P. S. King. 1926. Pp. vii + 194. 8s. 6d. net.)

MISS MILNES' method adds much to the value of her book, by presenting her subject along with its general economic background. A thorough consideration of wages necessarily raises many questions concerning other agents of production, especially when the subject-matter is widened to include the general problem of Labour. This, indeed, if carried to a logical conclusion would involve too wide a treatment; but Miss Milnes has wisely limited herself and has chosen her limits well. She has rightly omitted the subject of economic rent, and restricted her treatment of Fundamental Economic Conceptions. But matters which are definitely essential are fully and clearly dealt with.

The book contains both a definite theoretical treatment and a consideration of practical problems. The first three chapters deal with Some Fundamental Economic Conceptions, Interest, which might with advantage have been called interest and profits, since both are dealt with, and the Theory of Wages. The remaining chapters treat of Practical Questions concerning Wages, Earnings of Women, and Trade Unionism. One excellent feature consists of sketches of the development of economic thought in the first three chapters. The whole book is clearly written, alike on the theoretical and practical sides. The treatment is suggestive and does much to stimulate discussion, whilst Miss Milnes displays an admirable capacity to see, and to make clear to the reader, the reasons for points of view and actions with which she herself is not in agreement. This capacity to see all sides of a question makes her treatment of Trade Unionism and women's labour particularly valuable.

The theory of the book is essentially modern. Wealth is held to cover all that has exchange value, the limits of materiality and permanence being eliminated. The use of the terms "class value" and "quantity value," to distinguish goods which, being

unlimited in quantity, have no exchange value, from those which command a price, seems liable to cause confusion and therefore not to be preferred to older methods of distinguishing between utility and value. For profits the idea of reward of ability, and for interest the psychological theory, are adopted, and the latter is particularly well explained. In the former case, sufficient allowance is not perhaps made for influences which may unduly extend profits, such as the price-fixing arrangements described by the Food Commission as giving the marginal producer profits well above the competitive level and correspondingly raising rent of ability. Another instance of this may be provided by the uneconomic mines. Sufficient allowance, again, does not appear to be made for the effect of economic friction or defective bargaining power in hindering the full operation of marginal productivity in determining wages.

The standpoint of the book is essentially that of an enlightened individualism, brought into harmony with modern conditions. The main idea is that of the necessary balance of interest, profits and wages, as determined by the economic forces already referred to. The book, whilst recognising the claims of capital and ability, equally emphasises their duties and the corresponding claims and duties of labour. There is, in particular, a notable appreciation of the real soundness and value of the British Trade Union movement, " an achievement of which the Unionists may rightly be proud." This is accompanied by perfectly definite, but always sympathetic, criticisms which recognise that mistaken practices have often been " forced upon them by the great disharmony in industry," but nevertheless tend to keep " our wealth-producing capacity unnecessarily low." Such a standpoint, which can, after the alarums and excursions of 1926, see through real defects in individual matters to the fundamental soundness of Trade Unionism and can find one " chief hope of domestic peace . . . based upon enlargements of its original ideas," is of high value and one from which Trade Unionists and their critics alike can learn much.

The hope for the future rests essentially in co-operation and " the recognition by all of us of responsibility for the conditions under which the workers live." Such is the task of the general public. The agents of production, again, have a duty to work together and avoid waste, in order to secure the highest efficiency, since with marginal productivity as the determining factor, increasing welfare must largely depend on increased efficiency all round and not of the workers only. Carelessness in manage-

ment, for instance, will " have a very serious effect on the total wage bill." Similarly, Miss Milnes' views on Trade Unionism would suggest that their soundest policy would be to aim at general efficiency and use their bargaining power to enforce an adequate return. Perhaps she does not allow sufficient part for the State in this co-operation. In dealing with Employment Exchanges, for instance, she hardly seems to recognise what they can do to reduce the reserves of casual labour by creating a smaller number of central reserves and so to decrease the waste of under-employment.

This book, one hopes, will be widely read. A clear, able and concise statement of its problem will serve admirably to inform the " man in the street " on the underlying principles affecting wages and labour. But its treatment has much to offer more serious students both in economics and in the business world. Above all, its broad and sympathetic treatment is specially calculated to promote that " healing and settling " which is the essential need of to-day.

N. B. DEARLE

Unemployment as an International Problem. By J. MORGAN REES, M.A. (London: P. S. King. 1926. Pp. xv + 188. Price 8*s*. 6*d*. net.)

MR. MORGAN REES has performed a useful service in this book, for his subject is a branch of the problem of unemployment which has not yet been treated as fully as its importance deserves. The question seems to fall into two parts. First, there are the general international factors, arising from the commercial and monetary relations of the States of the world, which are operative at all times. For instance, it may be argued that developments of international trade and production for world markets have, along with their beneficial results, had a tendency to increase industrial fluctuations. Such a tendency would appreciably influence, and to an increasing degree as industry develops, the cyclical fluctuations in employment. The investigation of the general problem is therefore important for this and other reasons. Secondly, there is the special problem of the international political and economic situation created by the war and the peace; and Mr. Morgan Rees has concentrated on this. Possibly, therefore, his title suggests a wider treatment than the book in fact contains. But its scope is clearly indicated at the very beginning, where the author argues that " the post-war world is far more nearly

interrelated and dependent on goodwill for its very being than the world of 1913." A further interesting contention is that the seeker after world peace "must solve the problem of unemployment."

A large amount of interesting material has been collected and analysed in the book, which thus brings together within a moderate compass and in accessible form information and statistics that have hitherto been scattered.

The shorter first part, which deals with Post-war Economic Problems in relation to the Treaty of Versailles, contains an interesting treatment of various proposals for meeting problems arising out of the Treaty (Chap. I) which will be useful to the general reader; and its effects are also discussed country by country (Chap. II). The Treaty itself is perhaps rather too much "the bad boy of the family," and the examination of it would probably have gained in breadth and completeness if the condemnation had been less marked.

The second part, entitled Fluctuations in Employment, 1914–1924, shows a tendency to concentrate too exclusively on the influence of deflation. The author appears to insist too much on increasing unemployment as an invariable consequence of a fall in the price level and vice versa, and does not perhaps allow sufficiently for contrary instances, *e.g.* in Italy early in 1925. But the general conclusions are sound, that violent inflation causes a crisis of unemployment to arise when deflation and stabilisation are being carried out, and that a steady level of world prices is the most urgent need. Chapters IV to VII are devoted to the actual course of unemployment, dealing with the War Period, the Period of Crisis, and the Period of Recovery. Interesting evidence is produced to support the view that the post-war depression in the various countries was far more a matter of home than of foreign trade, though allowance may have to be made for the possibility that exports at any given time represent partly at least the actual conditions prevailing some months earlier. Moreover, more attention might have been paid to what may be called balance of trade conditions, which, if less important than the monetary influences, were by no means negligible. In the statistical treatment, use might have been made of the published totals of the recipients of out-of-work donation in 1919, which might have modified the conclusions regarding unemployment in Great Britain during that year.

The remainder of the book is concerned with General Theories of Unemployment, Population and Migration, and Conclusions.

This last chapter has an interesting summing up of the general position. The chapter on General Theories, however, is the least happy in the book. The author deals with a variety of matters; but the space at his disposal hardly allows him to do justice to all of them; and the summary is at times too elementary to be of great value. The treatment of the really important subject of population and migration is interesting and contains some valuable information. Unfortunately the statistics are not carried beyond 1921, and later figures might well have led the author to modify his conclusions. The author appears also to take an unduly pessimistic view, and might well have gone more fully into the evidence of an opposite kind, such, for instance, as the valuable discussion of population and emigration tendencies by Dr. Bowley, in *Is Unemployment Inevitable?* which suggests a more favourable view of the future position in Great Britain at any rate.

Mr. Morgan Rees has made a useful contribution to the economics of unemployment; and his treatment and his conclusions deserve careful consideration. He will do a further service by adding to this treatment of the special conditions of to-day, a discussion of the more general and permanent questions that arise out of the international problem of unemployment.

N. B. Dearle

Practical Social Science. By John A. Lapp. (Macmillan. Pp. 371. 7*s.*)

In the field of the biological sciences morphological text-books and treatises abound. In the realm of contemporary social science they are almost unknown. To what source is an elementary student to go who requires an outline of the facts of contemporary social and economic structure in this country? Where can he find assembled together and knit into a coherent whole the more important facts regarding population, occupation, industries, income, poverty, crime, distribution of intelligence and so on? Statistical abstracts exist in many forms. A contemporary social morphology, however, is something quite different from a statistical abstract. Essentially it should paint a picture of an organic whole. The painting of such a picture presents a far more difficult task than does the making of a morphological text-book in the biological sciences. Nevertheless it can hardly be said that students of the Social Sciences have as yet seriously addressed themselves to this very necessary task.

Dr. Lapp's book attempts to do something of the kind for

America. The aim of the book is stated to be "to provide a manual for the teaching of practical social science by the laboratory method." The book is divided into four parts—the first dealing with the Citizen and Society, the second with Production and General Welfare, the third with Social Welfare, and the fourth with Community Work. Each chapter, of which there are four or five to every part, contains statistical data derived from Government and other publications and a number of questions intended to suggest suitable exercises.

This book is a praiseworthy attempt to meet a true need. A book on somewhat similar lines having reference to this country would be of real value. Criticism is easy where the task is so difficult of accomplishment. The first criticism is that the book does not advance far beyond the stage of a statistical abstract. There does not rise up before the reader as he goes on from chapter to chapter and part to part the conception of an organic whole. We have some facts as to occupations and industries and some facts as to income, but we are not led to see the latter arising as a result of the former. Each section would almost stand by itself, whereas it is precisely the interrelations that it is desirable to emphasise. When dealing with crime the question can at least be asked, even if it cannot be satisfactorily answered, what relation there is between crime and poverty, or between crime and mental deficiency, both of which matters are dealt with elsewhere in the book. The second defect concerns the fact that bare figures are given without sufficient warning that the manner in which they are obtained requires very careful examination even if the matter cannot be adequately discussed without unduly enlarging the volume. Thus a student presented with what appear to be authoritative figures relating to income may be misled unless he is aware of the problems connected with the assessment of income. And the same may be said of mental deficiency and almost any other subject treated. But it is an ungrateful task to criticise an attempt to do something that is badly needed if the general ignorance which prevails is to be dispelled. The author has done something towards achieving his object, which is "to set the citizen on guard against plausible and untruthful social data and to acquaint him with some of the common errors of fact and conclusion."

A. M. CARR-SAUNDERS

The University,
Liverpool.

The Federal Reserve System. By J. H. JONES. (London: Gee & Co., Ltd. 1927. Pp. 54.)

THIS excellent brochure on the Federal Reserve System is most welcome. It provides information in a compendious form on a subject which is far too little studied in this country. Mr. Jones gives as many facts as may be set out within the small space of fifty-four pages without overloading, and discusses certain leading problems in an interesting and stimulating way.

One of these concerns the relation of the Federal Reserve rates to those of the general market. In the United States bills of exchange are not abundant and advances against collateral are less common than in this country. Instead, credit is chiefly obtained by the discount of one-name promissory notes. The Federal Reserve Bank rates normally stand above the prime bill market rate and below the rate for one-name paper, a clearly inferior form of security. This in itself is not unreasonable. But the result, that Federal Reserve credit is cheaper than most of the credit obtained elsewhere, is sometimes regarded as contrary to sound principle and dangerous, especially as Federal Reserve credit is largely acquired by the rediscount of the very promissory notes which have previously been discounted at a higher rate. Mr. Jones holds that the only safeguard against exploitation of the difference of the rates is the traditional restraint of the member banks and the moral suasion of the Federal Reserve Banks. The tradition first grew, we may add, out of an initial distrust of the new system and the desire of member banks not to become indebted to it. Mr. Jones appears to omit two important points in his otherwise admirable summary of this problem. The Bank of England does much of its discounting at a rate below the market, for in normal times it discounts only for favoured customers who receive differential treatment. Thus the real relation of the Bank rate to market rates is as a rule the same in England as in the United States. The notion of a central bank regularly doing business at a rate above the market is clearly absurd. But it cannot go out of business altogether in normal times. Our device of having one nominal and another actual rate is not open to the Federal Reserve System, owing to the different conditions of its origin and growth. An incidental result of this is that it seldom gets the choicest paper in its portfolio. Secondly, Mr. Jones makes no mention of the important fact of rationing. The twelfth annual report paid some attention to this topic (p. 18). The Banks are by no means

compelled to discount all legally eligible paper presented; a distinction is drawn between what is eligible and what is acceptable. The Banks also put a strict limit on the amount which they will lend to any single member. The last report records further success in the application of rationing to certain special classes of case.

In another connection Mr. Jones considerably exaggerates the importance of mere custom in the working of the system. He rightly observes that the great growth of credit in recent years has been based on the reserves which member banks have acquired through the influx of gold, and that Federal Reserve loans have remained comparatively constant. He infers that the Banks have lost the whip hand and have only been able to guide credit policy because the member banks voluntarily chose to follow their lead. He argues, "the volume of re-discounts and that of open market operations were so small in comparison with the total demand for credit in the community that the charge made by member banks need not have been influenced by the rate of discount" (*i.e.* the Federal Reserve rate) (p. 51). Mr. Jones here makes the wrong comparison. The volume of Federal Reserve credit was *not* small in comparison with member bank reserves. I give some characteristic figures. On April 12, 1926, the member bank deposits were \$32,870 millions, member bank reserves with the Federal Reserve Banks were \$2,238 m., and Federal Reserve credit (April 14) was \$1,242 m. Federal Reserve credit thus stood at more than half the member bank reserves. The figures indicate that reserves were at the legal minimum, and till money was a mere \$540 millions. It follows that more than a half of member bank credit (\$31,070 m.) was legally dependent on Federal Reserve credit. This was a position of immense power. If the Banks had wished to check expansion, they could have sold, say, \$300 m. of open market holdings, a proceeding not without precedent, and so compelled member banks to cut down aggregate credit by about 12 per cent. or come to them for further re-discounts at a higher rate and subject to severe tests. Mr. Jones is wrong in supposing that the great and beneficent work of the Board rests on no more solid foundations than the complaisance of a vast multitude of often unenlightened and sometimes refractory institutions.

He is guilty of two minor inaccuracies of fact. On p. 39 he writes, "the member bank retains as reserve an average of only 10 per cent. of its liabilities." This is too high. The thirteenth annual report records that the proportion stood at 8·1 per cent.

in March 1922 and gradually fell to 7·3 per cent. in December 1926. Again, referring to the distribution of profits he says, "when the reserve fund is equal to 40 per cent. of the capital, 90 per cent. of the surplus goes to the State." This was so once. But an amendment of March 1919 changed the former figure from 40 to 100.

R. F. HARROD

Christ Church,
Oxford.

Das Steuersystem Sowjetrusslands. By PAUL HAENSEL. 1926. (Hans Preiss. Pp. 176.)

THE author of this work, in addition to occupying a chair of Finance and Law at the University of Moscow, is also the economic adviser of the Commissariat for Finance in the U.S.S.R. He is therefore able to write with knowledge on the subject of taxation policy in Russia since the revolution of 1917.

The book, of which this is a second edition, opens with a short survey of what the author terms the "Expropriation Period," covering the years 1918–21. In this he shows how in October 1918 the Government aimed at expropriating the propertied classes by means of an Extraordinary Revolution Loan of 10 m. roubles. But whether or not this was successful as a socio-political measure, it was a signal fiscal failure. Corresponding to the levy on the urban population, an attack on the rural bourgeoisie was made in the shape of an agricultural tax in kind. While nominally directed against the richer peasants, in practice it amounted to a confiscation of every individual's surplus over subsistence requirements.

The inevitable effect of such drastic measures was greatly to curtail all forms of production. The consequent economic privation, accompanied by pestilence and aggravated by war and the blockade, necessitated an entire change of policy. Accordingly, in 1921 the New Economic Policy was substituted, based on a substantial re-introduction of private initiative, extending considerable liberty in trading to private firms engaged in industry and commerce, and permitting peasants to market their grain surpluses after payment of a moderate tax in kind. This distinctly increased productivity and trading.

Yet the reversion was responsible for creating the problem of rebuilding the tax-collecting organisation, since under the system of State ownership payment of taxes had merely required a series of book entries. And the task was complicated by the

very urgent needs of the revenue on the one hand, and by the greatly diminished taxable capacity on the other. In great detail the author shows how the reorganisation was accomplished. In the earlier stages reliance had of necessity to be placed on indirect taxes spread over a large number of commodities, of which luxury goods only were taxed heavily. In defending the choice of this uneconomical method, Professor Haensel argues that higher rates would have affected the standard of living of the poorer classes prohibitively and provoked considerable mischievous evasion. Even so it early became necessary to resort to direct taxation, on account of the continued depreciation of the currency, and the dislocation resulting from famine. Early in 1921, therefore, a general poll-tax was laid on all able-bodied citizens. The primitive character of the tax was somewhat modified by the devices of splitting the population into three groups, and exempting the unfit. And because it was financially fruitful it was retained, although in a much more complicated discriminatory form, in the two following years. The author stresses the fact that in 1923 this tax provided (in the case of the tax on agriculture) a medium for the transition from payments in kind to money payments. But one wonders why the return to money payments was so long delayed; and why the poll-tax was not supplemented by the more modern income and industrial taxes until late 1922.

Nor was it until May 1923 that the single tax on agriculture was decreed, the justification of which was the prosperity resulting from the New Economic Policy.

In spite of these additions, in view of the relatively slow increase in real taxable capacity, and the necessity for increasing the comparatively light burden of the peasants, it was found imperative to add further indirect taxes on articles of widespread consumption, such as tobacco, wine, mineral waters, salt, sugar, coffee, tea, naphtha products, rubber goods and textiles. Further, other direct taxes were levied on Hunting, Military Service, Death Duties, Ground Rents, and Stamp Duties, together with 6 per cent. compulsory Lottery Loans floated in 1923 and 1924; while simultaneously existing direct taxes were frequently overhauled. The effect of these changes, shown by a table given on p. 25 of the book, was to increase the total yield of Government taxes from 502·8 m. roubles in 1922-3, to 788·6, 1313·7 and 1882·7 m. roubles in the three following years, the greater part of which was due to the increased yield of indirect taxes.

Further, State taxation per head was 3·99 roubles, 5·90

roubles, 9·41 roubles and 13·72 roubles, compared with 9·24 roubles per head in 1913–14.

In this connection the author points out that although the post-war burden was ostensibly lower than that of 1913–14, careful allowance must be made for the great post-war reduction in capacity to pay. And additionally local taxes were more numerous and heavy.

As time went on it was realised that the new system had considerably altered the distribution of the tax burden—*e.g.* the poorer classes, particularly in agriculture, appeared to be oppressively burdened. Notably in 1924 and 1925, therefore, certain indirect taxes were reduced.

On the other hand, policy in respect of direct taxes was manœuvred towards discrimination against private persons and firms, as compared with government and societary undertakings. The best evidence of this is provided by the employment of divisions of taxpayers according to "classes." For example, in the Licence Tax five classes and six zones were created; while in the case of industrial undertakings there were twelve classes. Beside the Licence Tax, the Industrial Tax included a tax on turnover, and this burdened non-governmental enterprises from two to four times as heavy as governmental and societary concerns. Again, in the case of the Income Tax, whereas the former could be taxed so high as 40 per cent., the maximum for the latter was 8 per cent. The inevitable outcome of this policy was to cause private enterprise to decline substantially.

Subsequent developments and changes decided on in March 1926 are noticed briefly in the last two pages of the present edition. Mainly these provided that, for the purpose of balancing the budget, all-round increases in both direct and indirect taxation were decreed.

In considering the book as a whole, Professor Haensel is to be congratulated on his lucid handling of a mass of complex material. His powers of detailed writing, joined to a due sense of proportion and chronological perspective, give the reader a minute picture of the sequence of events and policy. But the need is felt of more extensive and penetrating economic analysis in respect of such problems as the capacity of State and societary industries to furnish their taxable quota; and the repercussion of an excessive turnover tax on private initiative, as well as on consumption. More adequate attention might have been given to a reform of the Income Tax considered in relation to the Tax on Turnover—in this connection the views of the Colwyn Com-

mittee are of definite suggestive interest. Further, the criticism of the system taken as a whole might be profitably extended, to include such relevant topics as cost of collection and administration, and the overlapping of State with local provincial policy. It would appear that the great merits of simplicity have been lost sight of; and that future reforms would do well to take into account the practicability of concentrating on the more fundamental taxes, and welding them together into a compact system which will achieve a happier balance of liability for the various strata of producers and consumers.

Misprints in the text of this translation are few—they occur on pages 35, 67 and 92—but the tables on pages 23, 25, 26, 73, 134 and 168 contain errors which call for correction. These apart, the work merits attention as a discussion of an interesting experiment in taxation policy.

J. Sykes

University College,
Exeter.

The Social Revolution in Austria. By C. A. Macartney. (Cambridge University Press. 1926. 8*s.* 6*d.* net.)

No satisfactory account has been written yet of the causes and conditions which made the Austro-Hungarian Monarchy what she was, framed her life, shaped her institutions, and which will explain, on the one hand, the steady progress accomplished in many respects from 1866 until 1914, and, on the other, her catastrophe in 1918. Nor is it likely that it ever will be written. For the last of all the unique impossibilities, for which a historical sociology of Austria would have to provide explanations, is the sudden disappearance, not only from the map but from the imagination of men, of that mighty structure, which, as a matter of fact, not only suited the interests, but also commanded the allegiance of the great majority of the people who inhabited it.

We are not to look for a thoroughgoing analysis of what is at least a most interesting problem in the clever little book before us. But it is the product of a cultured and observant mind, extremely well written, very fair in its judgments and quite useful as far as it goes. My only quarrel is with its title. For, as Mr. Macartney himself has ably shown in his text, there was, with the possible exception of the Bolshevist experiment in Hungary, nothing that could be called a "revolution"

at all. In a political and in a social sense there was a break-down—the former definitive, the latter temporary—under the pressure of suffering and defeat, but very little revolutionary impetus. The first three chapters are, on the whole, a very good introduction for the general reader to the author's main subject, the achievements of the Austrian Socialists when in power. He shows more justice to the Habsburg régime in his first chapter—"The Dynasty"—than many an Austrian writer of memoirs who ought to—and probably does—know better. The second—"The People"—is little more than a sketch of the rise of the Socialist party. And in the third—"Dissolution"—the picture drawn is bound to suffer from the insufficient acquaintance of the painter with the original and cannot, in its general effect, be commended as reliable. In justice to the memory of a perfect gentleman of kindly disposition, it may, for instance, be allowed to say, that nobody who knew Count Stürgkh would ever think of styling him either as a "mighty and despotic figure" or as "autocrat," and that Dr. Adler did not, as far as I know, kill him for anything he had to reproach him with, but only in order to set a general example, a frame of mind in other respects very well described by Mr. Macartney himself.

After having given, in his fourth chapter, a vivid picture of the vicissitudes of the new republic, Mr. Macartney proceeds to what is certainly one of the best things ever written on Austrian Socialism—which, for several reasons, repays study in a measure quite out of proportion to the importance of the country. These two chapters are the centre of the book and may claim the attention of the specialist. Closer study and a richer supply of facts would, however, have enhanced the value of the remarks on the "socialised" undertakings, and less than justice seems to have been done to the financial policy of the Socialist town council of Vienna, whose remarkable success does not, perhaps, stand out as much as it ought to.

The author is less familiar with the problems of the Austrian peasant, but the general impression given is sufficiently near the truth. An unguarded remark might betray the general reader into underrating the importance of the larger—mainly aristocratic—landowners, and another into the belief that the land of the Church is mainly let to tenants, which is not so. The reviewer, judging from himself, expects that the reader will enjoy the humour of the last three chapters. Still, thinking as highly as he does of Mr. Macartney's powers of well-balanced judgment,

he confesses that he would have liked to have his views on industrial, commercial and financial problems a little more explicit and better nourished with facts than they are.

JOSEPH A. SCHUMPETER

Bonn.

Italy's Economic International Position. By CONSTANTINE E. McGUIRE. (New York: The Macmillan Co. 1926. Pp. xviii + 588. \$3; and London: George Allen & Unwin. 12*s*. net.)

MR. McGUIRE'S volume will deservedly remain for a long time the standard reference book in English-speaking countries on Italy's present economic conditions. Italian students will be also obliged to recur to it, as the author has compressed in a compact volume much information which one would have been obliged to search for in innumerable public and private publications; some of them, indeed, not accessible in their country of origin, as, for instance, the memorandums presented to American and British Governments by the Italian Treasury at the time of the settlement of war debts. One of these memoranda, by Professor Corrado Gini, is annexed, as Appendix G, to the present volume. What painstaking industry, sound judgment, careful criticism can produce, we have in this volume. Of course Italian readers may, from time to time, feel that the writer is a foreigner, a sympathetic and scholarly-minded foreigner, but, as such, liable to the unavoidable consequences of not being born in the country. Mistakes on matters of fact are few, incredibly few in a 600 pages volume; an anticipation of an elective Senate, pursuant to projected reforms, as yet not enacted (p. 11); the abolition of the flour tax dated 1894 instead of 1884 (p. 65); the capital levy ascribed to Signor Soleri instead of to Signori Tedesco-Schanzer (p. 99); the beginning of the monthly Treasury statements referred to the year 1924, while they are much older (p. 331); the budget category of "entrate e spese reali" made to comprehend all the four categories of the budget, instead of only the first three (p. 332); the tax on mobiliar incomes said (p. 426) to be in 1864 a "capitation" tax, while it was an "apportioned" tax according to Bastable's terminology (*Public Finance*, 3rd ed., p. 273); the land and buildings tax rates said to be as yet progressive, when their graduation was abolished from January 1, 1925 (p. 433); such and other minor technicalities relating to scale of graduation of the super-tax on income, additional local surtaxes, date of payment of taxes, are the only

flaws an hypercritical censor could discover in a volume full of elaborate statistics, detailed historical narrative and fine unravelling of difficult financial mysteries.

The volume contains a text and seven Appendices; a much-to-be-praised arrangement, as the more searching reader may thus find in the Appendices the discussion of the main ideas and conclusions of the text, to which the more cursory reader may confine himself. What are the resources—land, industry and population; what the financial, international trade and currency situation of Italy before, during and after the war; what the present prospects for stabilisation; what the best economic policy to follow in future; these are briefly the predominant topics of the volume. Mr. McGuire's point of view may be described as that of an anxious optimism. He is optimistic because he appreciates greatly what Italy has already done in the field of reconstruction of her taxation system and of the general, railway and post office budgets equilibrium. He is anxious because he sees our country surrounded by so many difficulties. In the last chapter he enumerates the conditions on which the economic progress and the salvation of Italy depend: she needs "the maintenance of free international access to foreign food-stuffs and raw materials" because her territory is small and poor, and her population is rapidly increasing; she "stands to gain from the moderation of protective policies in the world at large," and she has "a paramount interest in the free and unrestricted movement of human beings from one country to another." None of these conditions depends mainly on the free-will of Italy, and the problem is, how to persuade the nations of the world at large of the utility and necessity of the free interchange of men and goods? After the practical exclusion of Italian immigrants from the United States, the population and emigration problems of Italy have become of the acutest. As a consequence of all these uncertainties, Mr. McGuire feels uneasy about the capacity of Italy for maintaining the equilibrium of the international balance of payments. With an excess of imports over exports of goods of about 1500 million gold lire, with a 600 to 800 million gold lire of interest burden in the near future if all the projected foreign loans to industry come to maturity, Italy has a precarious set-off of 1500 million gold lire from emigrants' remittances, foreign travellers' expenditure, merchant marine gains, etc.

I have grown sceptical about international payment deficits. Ever since Pietro Verri, the celebrated author of the *Meditazioni sulla Economia Politica* (1769), was obliged to reduce his estimate

of the excess of imports over exports for 1762 in the Duchy of Milan from 9·5 to 1·5 million lire, the outcry against deficits in the international trade balance of Italy has never abated. The final result of a secular series of so-called deficits was that in 1913 the total foreign holding of Italian State and private securities and investments—*i.e.* the total resulting indebtedness of Italy to foreign countries—might be estimated at 1500 million lire State securities, 750 million lire private securities and 1370 million lire of capital investments; total 3600 million lire—truly not an appalling price to pay for a country which from 1860 to 1913 had to build the whole State, railways, ports, etc., machinery, and start new industry and redeem marshy lands, etc. The increase in public and private wealth from 1860 to 1913 must have been many times the resulting debt at the end of what may be called the building period in the history of the new Italian State. The present problem is not mainly one of how to make both ends meet in the international payment budget; but whether Italy is able to use to good account the 200 million dollars or thereabouts which were lent her (State and Joint Stock companies) in 1925 and 1926 from the United States, Great Britain, Switzerland, Holland, and the other 200 or 300 million dollars which she hopes to receive and the above said creditor nations are, I submit, not afraid to lend her. There is surely a danger lurking in these loans; and we must be grateful to Mr. McGuire for explaining the danger so vigorously in his book. The danger is that foreign loans may be considered by lax-minded industrialists as a substitute for inflationism. Being no more able to get notes from the Bank of Italy to pay for raw materials, wages, etc., they may recur to foreign loans, *i.e.* to purchases of machinery and raw materials in foreign countries, provisionally settled with promises to pay at some future time. This would mean postponing the unavoidable liquidation of overgrown concerns, burdened with an undue proportion of locked-up savings and lack of circulating capital. Undoubtedly Italy must pass through a period of elimination of weak concerns, as Germany and Great Britain did, after their return to gold. Foreign loans must be restricted to the reproductive ones, without postponement of reconstructions which are the necessary and healthful results of the credit restriction policy. But clearly economists cannot do more than point out the existence of the problem; and I hope that bankers in foreign countries and industrialists in Italy will echo Mr. McGuire's timely warnings.

LUIGI EINAUDI

Produzione, salari e redditi in una regione risicola Italiana. By SALVATORE PUGLIESE. (Milan: Università Bocconi. 1926. Pp. viii + 276. lire 35.)

EIGHTEEN years ago I published in the ECONOMIC JOURNAL (Vol. XIX., 1909, p. 277) a review of *Due secoli di vita agricola*, a scholarly book in which the author, Salvatore Pugliese, opened a pioneer path in the history of prices, land values, wages, rents and profits in Italy. His selected field of work was the district of Vercelli, an agricultural region extending to about 313,000 acres, mainly situated in the plain between the Po and the Sesia rivers, in the Piedmontese region. My review ended with an expression of hope that the painstaking work by Signor Pugliese, which, in a very much smaller field and for a shorter length of time, may be rightly compared with the great works of Rogers and D'Avenel, might be followed by other investigators in other Italian regions. Alas! after so many years Signor Pugliese remains a pathfinder; and if we wish to read a sequel to his old work, we must perforce recur to his new book.

The field of work is the same; and the object of his researches are, as of old, agricultural land values, prices, profits, rents, wages in the Vercellese region. Only the time is different. The old quarto volume contained the history of the two centuries from 1700 to 1900; the new octavo book continues the narrative from 1900 to 1925. Perhaps because there were to be ascertained present-day facts, I have obtained the impression that they were the more difficult to gather. Old facts do not trouble anybody, and if sources are existent they are readily open to investigators. Present facts and figures may be of some consequence to conflicting individuals, classes and parties; and enthusiastic researchers sometimes are subject to receive chilly replies to their importunate questions. Signor Pugliese has well surmounted the initial difficulty; and has, moreover, secured data which probably would have been for ever lost, had he not saved them from the oblivion of men and time.

As scholarly as his first book, his new contribution is more intensely interesting. The period covered was firstly signalled, in the pre-war times, by rural agitations, the spread of socialistic doctrines, the rising of the agricultural labourer to a new dignity of life; afterwards by the war upheaval, and then by the progressive fall of the purchasing power of the lira down to about a sixth part of her old level. Truly a system of forces capable of throwing out of gear the best built economic machinery. Agricultural workers have come very well out of the ordeal.

Owing to deficiencies in the statistical sources and the waning of the annual contracts, the new series of wages relate to labourers with daily or weekly contracts. Between 1700 and 1900 the annual wages of these labourers had increased from 258·74 to 471·75 lire; but as the cost of the barest necessities of life increased also from 208·74 to 366·69 lire, the margin for other expenses increased only from 50 to 104·75 lire, *i.e.* from 24 to 29 per cent. of the primary expenditure. The successive steps in the first twenty-five years of the present century may be stated thus: *wages:* 401·75, 609·10, 4010·20 and 5678·45 lire, respectively for the years 1901–5, 1906–10, 1921 and 1925; *cost of the barest necessities of life* (if supposed unchanged from the 1700-1900 level): 366·69, 392·37, 2166·96 and 2665·97 lire for the same four dates above said; *margin:* 104·76, 216·73, 1843·24, 3012·48; *proportion of the margin to the primary expenditure:* 29, 55, 85, 113 per cent.

Twenty-five years of social agitation and of war and post-war turmoil were sufficient to effect a radical change in the condition of the agricultural masses. Whereas they had at the beginning of the present century an unchanged—as against two centuries before—margin above the simplest mean of existence, they can at present, with a margin of 113 per cent., purchase very much better food and improve their house and other expenditures. The food they have, vastly bettered; for a better home they care as yet not much. Some of them save and invest in land. Even in a region, as the Vercellese irrigated and rice cultivated plain is, predominantly favourable to great farming, the proportion of the total land possessed by very small proprietors (up to about 10 acres), has increased from 7·5 per cent. in 1740–80 to 17·9 per cent. in 1905 and to 20·5 per cent. in 1925; the part held by small proprietors (from about 10 to 30 acres) increased also from 9·2 to 11·1 and to 12·8 per cent. at the three dates aforesaid; while the part held by medium-sized proprietors oscillated between 18·3 per cent. in 1740–80 to 20·2 per cent. in 1905 and 17·2 per cent. in 1925; and the remaining portion of the total surface held by great landowners (above 100 acres) diminished from 65 per cent. in 1740–80 to 50·8 per cent. in 1905 and to 49·5 per cent. in 1925.

The rent of land is apparently also greatly increased: from 181·27 lire per hectare (2·5 acres) in 1901 to 297·48 lire in 1913 and to 1248·65 lire in 1924; but if we translate these paper lire into gold lire, we obtain: 181·27 to 292·36 and 278·37 respectively; so that the rent of land seems to have only very moderately increased after the beginning of the century, and, if we

take account of the decreased value of gold, positively decreased after 1913. The lag in the rent of land increase is due to the fear of risk incurred by farmers in obliging themselves to pay a fixed rent in paper lire. What will happen if the lira is to be permanently revalued? This fear explains the growing popularity of the custom of contracting rents payable in rice or wheat, or a combination of them and other agricultural products. In cases where the rent is a rice-rent, the value of it may be estimated at 361·63 gold lire in 1922, 597·70 in 1924, 769·07 in 1925. It thus appears that, if the risk of variable money were eliminated, landowners would be able to obtain a considerable increase of rents. On the contrary, prices of land, which were about 4600 lire per hectare at the beginning of the century, increased to 5000 lire in 1913 and to 30·000 (paper) lire in 1925, corresponding to 6185 gold lire, a price less than the pre-war 5000 lire if we take into account the depreciation of gold. In buying land, buyers cannot insure themselves against the risk of an appreciation of the lira; and prices therefore remain at a lower comparative level than rice or wheat rents. Farmers could not, however, pay the increased rice or wheat rents if they were not able to push production to limits undreamed of in past times. The staple product of the region, rice, has increased from 2·06 metric tons of raw rice per hectare to 4 tons in 1896–90 and to 4·5 in 1921–24. But these are average yields; in the best farms, yields of from 7 to 8 tons per hectare are by no means uncommon; and it is not improbable that, in a not too distant time, they will become the average yields, while the best farmers will reach 10 tons per hectare. The most progressive farmers are beginning to adopt the practice of the transplantation of the rice, by which practice nine-tenths of the soil is made free from January to June, and capable of an intermediate culture. The Vercellese soil may truly be said to have been built and rebuilt several times in the last two centuries. It would be unthinkable at present to repeat the severe judgment of Arthur Young when travelling from Turin to Vercelli: "Here is a great field, which was under rice last year, now left to weeds, with hogs feeding. Why not sown with clover among or after the rice?" (*Travels in France and Italy*, 2nd ed., 1794, Vol. II. p. 236). Not a bit of land is lost to-day to cultivation, and the time of a universal two crops in succession each year seems near at hand. Only by unremitting efforts towards increased production can farmers hope to maintain profits on the face of increasing real wages and land rents.

LUIGI EINAUDI

Prospettive Economiche: 1927. GIORGIO MORTARA. (Milan: Universita Bocconi. 40 lire.)

L'evoluzione economica italiana nell'ultimo cinquentennio. VINCENZO PORRI. (Stab. Tipo. C. Colombo: Rome. 1926.)

PROFESSOR MORTARA'S volume, now in its seventh annual issue, is almost entitled to be regarded as an Annual Register of Italian commercial economics. Whilst he carries on much of the work treated previously in Bachi's annual *L'Italia Economica*, yet he deals with matters more from the view-point of *Weltwirtschaft*, endeavouring to place Italy in its correct position as regards world production and consumption, and omitting many of the social movements dealt with by Bachi.

Like its predecessors, the present issue is marked by that carefulness in compilation which we should expect from its author, and a caution in coming to conclusions which seems in places (particularly the very short paragraphs under the heading "Situazione Prospettive") to be excessive. In the closing chapters he brings out clearly the monetary and financial movements in Italy; the fiduciary circulation remains aggravatingly and steadily high, whilst the lira advances steadily. But it seems that the position of the lira in terms of the pound and the dollar has been located, and it is only a question of finding the exact point for replacement on a gold basis. From Professor Mortara we should value some more detailed economic analysis of the figures with which he deals: it would be useful also if he could give us some information as to movements of wages and Italian internal costs, as to capital developments both as regards Italian-owned and foreign-held capital in Italy, and as to Italian revenue methods.

Professor Porri deals with the economic progress of Italy during the last fifty years; one may say progress rather than evolution, if one puts aside superior and, usually, unfounded views as to Italian economic inferiority. To read Italy correctly we have to remember that Italian unity preceded only slightly German unity, but whereas the latter meant merely the political adhesion of well-developed groups under the force of powerful economic attraction, in the case of Italy it meant merely the gathering of clay to make the bricks which only now, nine years after the close of the Great War, can be said to be assuming the shape of a permanent building.

Professor Porri's work is a history, written in admirable style, of the long-phase development of each branch of his subject.

Each branch, without descending to mere geography, he illustrates with local detail, and makes the most of his advantage as an historian over more matter-of-fact economists. The chapter on agriculture stands out specially. After fifty years of industrial revolution the rural population of Italy has only declined 26 per cent. (1871 to 1925), and, as regards industrial occupations, only 4 per cent. of industrial units employed more than 250 persons in 1911. Of 6,064,000 land holdings assessed for taxation in 1924, 5,210,000 average 0·49 hectares or 1·2 acres, 540,000 average 16 acres, and a further 173,000 average 74 acres, all this without reference to fertility. On the other hand, 77·4 per cent. of industrial undertakings in 1911 employed 2 to 5 persons. Despite the growth of large-scale industries since then, the small workshop disappears only slowly. Wheat is still the main product, yet home production and import move steadily upward with population, and the home production is the one variable of the three which seems to be subject to limitation.

The balance of payments in 1922 showed a deficit greater than that for 1909–13, a deficit which has since been reduced steadily as a result of the policy of Di Stefani and his successor Volpi, but the matter is a serious one for Italy : invisible exports consist mainly of emigrants' remittances and tourist expenditures, while the adverse item " interest on investments " is likely to increase rapidly in the future in view of recent American, British and other foreign advances to Italian industry. A definite policy of restriction of imports means any of three things ; cutting-down raw materials with hampering of industry and reduction of taxable capacity ; reduction of food-stuff import, but Italy must live whilst the " battle of the grain " is being waged ; reduction in manufactured imports which would send up implement and fertiliser prices against an agriculture which is saturated with labour and starved of capital. The only solution is economy and " effort," and with this last word in mind we can forgive Professor Porri for his closing effusion on " I Cavalieri del Lavoro," after reading his book with so much pleasure.

A. SCHOLFIELD

La Vie Économique Internationale. Par BARTHÉLEMY RAYNAUD. (Un vol. in 16+490 pp. Paris : Sirey, 1926.)

DANS l'Avant Propos l'auteur dit : " Il est impossible aujourd'hui de bien analyser aucun phénomène économique, aucun fait social, sans tenir compte de l'aspect international du problême."

Il est vrai, mais c'est pourquoi le titre de ce livre est un peu vague et son cadre un peu indéterminé. C'est en réalité tout un traité d'Économie Politique et où l'auteur a même conservé la division classique, production, circulation, répartition, consommation, et, a ajouté, une cinquième partie sur les questions sociales. Nécessairement pour embrasser un si vaste domaine l'auteur n'a pu donner qu'une très petite place à chaque question, par exemple 26 pages au commerce international.

Toutefois l'auteur fait remarquer que son but n'est pas de traiter les questions économiques en elles-mêmes, mais, les supposant connues du lecteur, d'indiquer "les organisations, institutions, et traités, qui tendent à une réglementation internationale de ces questions." C'est une étude purement didactique, sans controverses, et dans laquelle l'auteur s'abstient même généralement de donner son opinion personnelle. Ce livre ne fournit donc pas matière à une analyse critique. Mais ou peut le recommander à ceux qui désirent être au courant du mouvement international. C'est une sorte de Yearbook où l'on trouvera la date de naissance, l'histoire sommaire, et le programme de presque toutes les innombrables associations et conventions, publiques ou privées, qui arborent le titre d'internationales.

Cette vaste documentation est assez réconfortante car elle montre combien sont nombreux les liens de solidarité entre les peuples. En se croisant et en se resserrant, ces liens finiront par embrasser tons les pays dans une Union Économique mondiale laquelle pourra fournir à la Ligue des Nations une base plus solide que celle purement diplomatique sur laquelle elle repose aujourd'hui.

CHARLES GIDE

The Industry and Trade of Japan. By S. UYEHARA, M.Sc. (London: P. S. King & Son. 1927. Pp. xv + 326. 8vo. 15s. net.)

ABOUT the end of the fifteenth century the author of the *Venetian Relation* recorded his impressions of the English: "great lovers of themselves . . . and whenever they see a handsome foreigner they say that 'he looks like an Englishman,' and that 'it is a great pity he is not an Englishman.'" It is even so with us to-day when we refer to Japan or the Japanese as the "England" or the "English" of the East. We see in them characteristics which we believe to be common to us both—an ardent patriotism, an industry, a resolution and resource which have enabled us literally to fight our way to the front in maritime power, in com-

merce, and in the acquisition of overseas dominions by conquest and settlement, to pass from a predominantly agricultural to a highly industrialised economy, to witness a rural exodus to the towns, the rapid rise of great centres of industry under a factory system, with social and labour troubles necessitating Factory Acts, legislation as to Trade Unions, strikes, and the like, and to be faced with the problem of a dense population cooped up in small islands dependent largely upon imported food and foreign trade for subsistence. The economic history of Japan for the last half-century reads very much like a compressed version of our own economic history for four centuries. In some respects it is where we are; in others it is where we have been at an earlier stage of development. As Mr. Uyehara unfolds the story of the development of Japan since the Meiji Restoration in 1868, we may say sympathetically to our loyal and efficient allies, "We have been through it all ourselves." In a brief introduction Baron Hayashi praises the author's endeavour "to increase the mutual understanding and goodwill which has so long existed between the island nations of the East and the West. . . . To know a friend's difficulties and struggles is to appreciate his achievements or to commiserate his failures. It is for this reason that I particularly commend Mr. Uyehara's record of my country's economic development to the sympathetic perusal of the British public."

The record is restrained, unvarnished, severely statistical, and nevertheless lucid and highly interesting. Until the American fleet under Perry anchored in Tokyo Bay in 1854, Japan was a closed world. It opened itself to foreign intercourse in 1858. Its renaissance dates from the Meiji Restoration, 1868. Its mettle was tried in the civil war of 1877—the Satsuma Rebellion. And it leapt into the place of a great Power by its victories over China, 1894–5, and Russia, 1904–5. The value of Japan's services in the World War do not appear to have been adequately chronicled up to the present time. Each of these three successful wars stimulated trade and industry in Japan. Each was followed by a boom. Each boom gave way after two years to depression, with the symptoms of which we are unhappily too familiar: multiplicity of new concerns, over-capitalisation in many directions, amalgamations, reduced competition, price agreements and lessening of output. Formosa and Korea notwithstanding, the problem of dealing with a rapidly increasing population is acute, and is intensified by the immigration policies of other countries. It is for this reason that trade with the vast population of China is of the first importance to Japan.

In some respects the development of Japan has differed markedly from our own:

> "Time and the Ocean and some fostering star
> In high cabal have made us what we are,"

but Japan has been less indebted to *conjunctur* and more to the deliberate policy of far-seeing and enlightened administration. Banking and transport were the first concern of those who wished to stimulate her commerce. They had not to wait for the growth of commerce to call them into being. When a house is built in Japan the roof is first finished and then the work is carried downward. In like manner the progress of Japan has been engineered largely from above. Mr. Uyehara describes the growth of capital investment, the conditions of labour ("taking Japanese industries as a whole the proportion is roughly 60 per cent. women workers to 40 per cent. men"), and then examines the representative industries one by one. We see their past and present condition and their outlook. The natural resources of Japan and their limitations are considered, the lack of fuel and native iron, the possibilities of electrical power, the passing advantage of cheap labour, and other problems are touched upon, and the conclusion is arrived at that food-stuffs must be freed from taxation if Japan is to hold her own in foreign trade. The work is, however, in the main expository and realistic. The preface is dated July 5, 1925, and the book seems, therefore, to have been a long time in the press. In 1927 the menace of artificial silk to raw silk (which accounts for nearly two-fifths of Japanese exports) would probably appear to the author to be much greater than when he wrote, though even then he points out that the artificial article was produced at half the cost of raw silk.

HENRY HIGGS

Co-operation and Competition in the Marketing of Maize in South Africa. By HERBERT FRANKEL, M.A. (London: P. S. King & Son, Ltd.)

ECONOMISTS when they come to investigate any concrete department of economic life are likely to find that they cannot even begin their task without suitable statistical measurements. In outlying districts spectacles are on sale ready made, and the country yokel chooses a pair that seems to suit the requirements of his vision. The analogy must not be pressed, but this is very

much the position of the economic investigator in relation to statistical information. He has to take what he can get, and frequently has to content himself with data which were not designed to throw light on his particular problem, though a slight change in the form of presentation might have made all the difference.

Mr. Frankel is to be congratulated on his industry in acquiring the statistical data necessary for his thesis, and his skill in using it. After giving an account of the traditional competitive system of maize distribution the author describes the activities of the co-operative maize-selling societies, and shows by a ruthless use of the statistical method that the co-operative system in South Africa is on the whole less efficient than the system of private merchandising, which it has only displaced to a very limited degree. The reader is not intended to receive the impression that the latter is particularly efficient either.

South African agriculture appears to live in a chronic state of financial and commercial dependence on the country storekeeper; in the ordinary way it is the latter who buys the grain from the individual farmers, and after a brief interval of storage disposes of it, through the usual channels, for export or for consumption in the mining areas. Only about 30 per cent. of the average production of 14,000,000 bags is exported.

A new elevator system under railway administration has just been inaugurated. In Mr. Frankel's opinion, this will render unnecessary the functions of the storekeepers as collectors of grain, and lead to the growth of a " futures " market which will minimise price fluctuations, maintain continuity of buying and selling, and improve the conditions under which credit can be made available at all stages in the handling of the grain.

The picture which Mr. Frankel gives of South African conditions is not very flattering, and there is no reason to doubt its substantial accuracy. He has indeed made a wide study of the experience of other countries in these matters, yet local atmosphere seems to have perverted to some extent his views on co-operation in general.

" The marketing of graded and standardised commodities," he says on p. 127, " presents special difficulties, but there is reason to believe that a large measure of success will attend the efforts at co-operative marketing of perishable commodities." It is precisely because co-operative marketing has led to the grading and standardising of such perishable things as early potatoes, peaches, citrus fruit, apples and eggs, with conse-

x 2

quent improvement in production from the point of view of consumer demand, that it has been applied with such success in California and elsewhere.

One fails to see why the system should be inapplicable to the marketing of non-perishable commodities which are graded and standardised by external agency, more especially as, according to Professor Boyle in his recent book on the *Marketing of Agricultural Products*, it appears to be true that the co-operative marketing of grain is by far the most important example of co-operation in America, and has been in successful operation for over twenty-five years.

Mr. Frankel's essay in Descriptive Economics should be of great practical value in his own country, in which not only the ethical but the economic basis of successful co-operation appear to have been hitherto ignored both by farmers and Government.

JOSEPH JOHNSTON

Trinity College,
Dublin.

Chapters on Machinery and Labour. By GEORGE E. BARNETT. (Harvard University Press, Cambridge, Mass., and Oxford University Press, London. Pp. vi + 161. 10*s*. net.)

THIS is a collection of six essays in recent economic history reprinted from various periodicals. The first four set out to show how the introduction of certain particular machines—the linotype, the stone-planer, semi-automatic and automatic bottle-making machinery—in the United States of America affected the skilled handicraftsmen who had formerly done the work; the last two add some general reflections suggested by the facts thus displayed.

The book is, then, strictly limited in scope. It does not inquire what effect the new machines had on the fortunes of labour as a whole. Nor does it include any study of the effects of improved machinery in a process already manned by machine-workers, unless, indeed, the second phase of the transformation of bottle-making (the introduction of automatic machines and flow and feed devices which displaced the operators of semi-automatic machines) be regarded as an instance of this. It is concerned with the introduction of mechanical methods into tasks hitherto performed by handicraftsmen possessed of highly specialised skill; and it considers, in each case, the fate of these handicraftsmen only. This circumscription of aim and content

has advantages. It makes for brevity and gives the work a cohesion and crispness which more comprehensive treatises too often lack. Short monographs on single subjects, clearly and narrowly defined, have not had as large a place in economic literature as they ought to have had. An addition to their number is welcome.

Changes of the type which Professor Barnett has investigated are probably rare nowadays, and must be becoming rarer every year. Indeed, not the least of the services he has rendered in this book is to remind us that they were not confined to the epoch of which they are commonly regarded as characteristic—the so-called "Industrial Revolution"—but still occur here and there in our own Machine Age. The earliest of the examples which he has examined—the introduction of the linotype—took place between 1887 and 1903: the latest—the introduction of automatic bottle-making machinery—in the last twenty years.

His description of the process of change, of the trade unions' attitude towards it, and of the course of the craftsmen's wages and employment while it was in progress is, in every case, excellent: succinct, lucid, fully documented, well supplied with relevant figures and admirably free from bias or *parti-pris* of any kind.

His estimate of the influence of the changes on the fortunes of the handicraftsmen is not quite so satisfying. The problem is to decide whether these workers would have been better or worse off if the machines had not been introduced; and, if possible, how much better or worse off. This raises the elementary but fundamental difficulty which besets every attempt to apply scientific method to the study of social phenomena: control experiments are impossible and, in nature, the cause in whose effects we are interested hardly ever operates in isolation. Professor Barnett is, of course, aware of this difficulty and is never guilty of a crude *post hoc, ergo propter hoc* (though he comes dangerously near one on p. 82); but his method of meeting it might with advantage have been rather more elaborate. His statistics of wages, for instance, are confined to the years in which the introduction of the machines was actually taking place: it would have been helpful if they could have been carried some way backward and forward so that their course during the critical period could have been compared with their previous and subsequent trend. Nor, again, does he illuminate his information about employment in the groups affected by the machines by relating it to any record of the *general* course of

employment; and he omits a similar precaution in regard to wages in two of his four cases.

But no devices, however elaborate, can make a statistical record of historical events an altogether satisfactory substitute for experiment. Partly for this reason, partly because it is impossible to generalise from a few cases when each case differs so much from the rest, Professor Barnett's work belongs to the category of history—which deals with particulars—rather than to that of science—which is interested in general laws,—though his concise and dispassionate discussion of the principal factors on which the craftsmen's fate depends in the circumstances here contemplated (Chapter V) is sound and helpful. As a contribution to economic history his work is first-rate and full of interest to everyone concerned with contemporary labour problems.

The book is well printed on good paper. But its price is high. It has no index.

G. F. SHOVE

King's College,
Cambridge.

Commercial Education. By SIR WM. ASHLEY. (Williams & Norgate. 1926. Pp. ix + 164. 5*s.*)

Business Economics. By SIR WM. ASHLEY. (Longmans. 1926. Pp. viii + 71. 2*s.* 6*d.*)

THE former of these small books consists of four separate essays, surveying the existing provision of commercial education in England, Germany and the United States. The preface gives us to understand that the book is merely the first step in a much more ambitious programme, but it is well worth reading as a survey of facts with which many people are unfamiliar, and the rest unmindful. The first essay deals with Commercial Education in England under the Board of Education. The difference between the declared policy of the Board, and its execution by the Local Education Authorities, is a phenomenon common to other branches of our national education scheme, but in respect of commercial education those much-maligned " bureaucrats " in Whitehall are especially wide-awake and progressive, and the L.E.A.'s the reverse. Private enterprise is really little better than the efforts of our public authorities, and it would not be easy to dispute Sir William's conclusion that " the whole system of British Commercial Education is at present second-rate,

contributing less than it should to the production of routine clerky efficiency, and contributing little to the promotion of the higher qualities of business judgment." The diagnosis of the root trouble as a defective elementary education is equally incontrovertible. Remedies within the limits of practical politics can only bring slow improvement, but that is all the more reason for pressing on steadily.

The second essay is perhaps the most interesting of all, if only because the changes in German University Education for commerce have been so swift and far-reaching since the war, that few people have much knowledge of what has been happening, let alone its significance. The issues which assume primary importance in German eyes will seem comparatively unimportant to the Englishman, and perhaps barely intelligible to the American, because of the peculiar status of the Civil Service in Germany. But the innovations and experiments now being made are well worth our careful attention. The same applies to the doings of the American Universities, which form the subject of the third essay. If less recent and revolutionary, developments there are perhaps at the moment more important, since for that very reason it is more possible to estimate their true importance. One wishes indeed that this essay had been cast in more generous proportions, so as to include material for a more detailed and comprehensive judgment. The last chapter is Sir William's paper to the 1921 Conference of the Universities of the Empire.

Business Economics is neither a text-book nor a *magnum opus*, but consists of three lectures delivered in September 1926 at the Copenhagen Commercial College. Having drawn a distinction between Political Economy and what he terms Business Economics, Sir William offers an illustration of the manner in which he would have the latter taught, by taking as a text the phenomena of overhead charges. He has not attempted to make an original contribution on this subject, but to afford an object-lesson to teachers of commerce students. It is to be wished that Sir William had more fully developed his distinction between Political Economy and its "new sister," Business Economics. It may be doubted whether any important distinction of subject-matter really exists, at any rate to-day, for the last generation has seen an increasing development of the dynamic as opposed to the static view-point in economic science. It may be advisable for the commerce student to pursue a more detailed study of certain economic phenomena and problems, even at the expense of others, but this hardly justifies the idea of two more or less

distinct and separate subjects. We rather fear, for example, that many of our commerce students will hail Sir William as an ally in the fight to abolish from their curriculum all the old theoretical analysis and principles of economics, even in the most elementary form. There is little enough study of the elements of economics in many of our commerce degree courses as it is, and the educational value of the degree, not merely in the production of reasoning citizens, but also in promoting "the higher qualities of business judgment," is perhaps correspondingly impaired. Actually these lectures are a splendid example of the importance of a sound grasp of economic principles, and of the trained economist's approach to business problems, but it is perhaps a pity that Sir William did not stress definitely, and in more detail, what may not be so obvious to those who have been inadequately grounded in these fundamentals.

J. W. F. ROWE

Richard Cobden and Foreign Policy. A critical exposition, with special reference to our day and its problems. By WILLIAM HARBUTT DAWSON. (George Allen and Unwin. 12*s.* 6*d.*)

COBDEN no doubt acted wisely, as regards both his peace of mind and his effectiveness, in refusing Palmerston's offer of a seat in the Cabinet in June 1859; but the fact that he never took a hand in the management of foreign affairs, with the important exception of the French commercial treaty, must detract from the dramatic value of this book as compared, say, with Professor Webster's and Dr. Temperley's studies of the foreign policy of Castlereagh and Canning. There one could see principles being fashioned and tested by the need of meeting actual emergencies, whereas Cobden was never responsible for his country's conduct and safety, was never called upon to translate his policy into practice. Yet such was the width of his knowledge of character and conditions both at home and abroad, such his moral courage, and such his understanding of the forces that were to shape the future, that his views must be of great interest to the student of international affairs both in Cobden's day and in his own. Mr. Dawson is to be thanked for explaining so clearly and with such excellent quotations what those views were, with regard to the balance of power, intervention, arbitration, armaments, maritime law, the Eastern Question, the United States, the Empire, and the conduct of foreign relations.

But the book is much more than a mere exposition of Cobden's doctrine with sympathetic commentary. To Mr. Dawson history is present politics; he would have felt unworthy of his hero, he tells us, if he had shirked the duty of applying his teaching to present problems and avowing freely his own conclusions. Consequently a large part of the book is devoted to telling us what Cobden would have thought—we are even given a speech he would have made—had he been alive to-day, and a larger part to expounding the author's own views on the foreign and colonial policy of the Entente Powers in the present century. Many of his readers will regret that Mr. Dawson did not resist these temptations; they would have preferred to imagine for themselves Cobden's attitude to present-day affairs, and they will feel that Mr. Dawson's rather angry pamphleteering not only disturbs the historical picture but presents the subject in a manner so partial as to be misleading. To them, such statements as that the French Government and diplomatists, "as the world now knows, were bent on a war with Germany as soon as British military and naval co-operation could be counted on with confidence" (p. 264), or that "long before 1914 Great Britain, in effect, was as securely tied to France as Russia had been since 1893" (p. 288), will seem no less out of place than unwarranted. The unfortunate but inevitable result of allegations that so far outrun the evidence is to turn the reader from fruitful study of Cobden to mere distrust of his panegyrist.

It is interesting, nevertheless, to speculate how far the establishment of the League of Nations would have modified Cobden's views on the rights of neutrals at sea and the collective coercion of an aggressor State. Would he have undergone the same conversion on these points as President Wilson, whom he so strikingly prefigures? And would he have looked on the League itself as an entangling or a disentangling alliance? Intensely sympathetic as he was to American political thought, which direction would he have desired it to take?

One or two slips in the book should be mentioned. Metternich and Hardenberg would surely have been as deeply shocked by the statement (p. 48) that Austria and Prussia only ranked as Great Powers after 1818, "though for a long time expected to sit below the salt," as Earl Grey would have resented the charge (p. 61) that he ever contemplated the dilution of the House of Lords by an "infusion of plebeian blood." Lord John Russell did not become Earl Russell "by succession," as we are told on p. 259; and to speak (p. 237) of "the unlettered

masses of the people" as taking the right moral line in the American Civil War "by unfailing instinct" seems hardly consistent with what we have previously read of the part played by public opinion in the Crimean War. J. R. M. BUTLER

Trinity College,
Cambridge.

Calendar of Plea and Memoranda Rolls recorded among the Archives of the Corporation of the City of London at the Guild Hall. Rolls A1*a*–A9, A.D. 1323–1364. Edited by A. H. THOMAS, M.A., late of St. Catharine's College, Cambridge, Clerk of the Records. (Cambridge University Press. 1926. 15*s*.)

MR. A. H. THOMAS has already laid all students of the economic and social history of mediæval London under a heavy debt by his Calendar of Letters from the Mayor and Corporation, and he has increased it by producing the present volume. It consists of a Calendar of the Plea and Memoranda Rolls of the Corporation of the City for the years 1323–1364. Its value is increased by a learned introduction, in which the editor discusses of the nature and provenance of the documents included and gives a short account of the development of the power and administrative machinery of the City. The story is a tangled one, and no more competent guide could be found than Mr. Thomas.

Certain among these documents throw light upon the national politics of the period, in particular on the movement which led to the deposition of Edward II. But their principal interest for the economic historian consists in the glimpses which they afford of the commercial and industrial conditions and policy of the period in the greatest centre of economic activity in the country. There are several letters which have as their subject the vexed question of the relative advantages of a home or foreign staple. There are some characteristic gild rules (the pouchmakers and goldsmiths); certain examples of incipient trade unionism (among, *e.g.* the carpenters, bakers and cordwainers), numerous cases of forestalling and a curious case of a trade combination attempting to use a Court Christian to compel a recalcitrant member not to sell below the price fixed. Most interesting of all are the proceedings arising out of the Great Plague and the Ordinance of June 1349 forbidding labourers to take more than the customary wage. Cases of craftsmen demanding higher wages, and sellers higher prices, begin at once, in July of that year, and recur for the next few months on almost every page of the volume. R. H. TAWNEY

Elements of Mathematics (for Students of Economics and Statistics). By D. CARADOG JONES and PROFESSOR G. W. DANIELS. (Liverpool University Press and Hodder & Stoughton. 8*s.* 6*d.*)

MATHEMATICS can be of service to the student of economics in two ways—it provides the statistical technique with which he can handle his raw material, and it provides certain concepts which greatly clarify theory. There are already in existence a good many short cuts to the first end; the originality of Mr. Jones' and Professor Daniels' book is that it attempts also to contribute to the second. In this it cannot be held to be wholly successful, for the greatest service of mathematics to the economic theorist can hardly be performed without some real mathematical discipline. But if the non-mathematician must be denied Pareto's sudden flash of illumination when he saw that the equations for the equilibrium of supply and demand were analogous to those he knew in statics, there is at least no reason why he should not penetrate some way into statistics, and from acquaintance with the elements of co-ordinate geometry and calculus given in this book, lose his terror at the sight of a curve or a differential coefficient.

J. R. HICKS

London School of Economics.

NOTES AND MEMORANDA

The Irish Free State Tariff on Footwear

In his Financial Statement to the Dáil outlining the legislation which the Government of the Irish Free State proposed to embody in the Finance Bill for the year 1924, Mr. Blythe, the Minister for Finance, explained why a tariff on boots and shoes had been accepted by the Executive Council. A limited experiment in the use of a tariff was to be made with the hope of stimulating industry in the Irish Free State. "We have selected as the main case for the proposed experiment the Boot and Shoe Industry. This industry is one which should flourish in the Saorstat; and if it were strongly developed should lead to the resurrection of an important tanning industry which would link it with the main agricultural industry of the country. At present the manufacture of boots and shoes is carried on to some extent in the Saorstat, but about fourteen-fifteenths of our requirements are imported, the annual value being over £2,000,000. The proposal I have to make to the Dáil in this case is that there should be imposed a Customs Duty of 15 per cent. *ad valorem*."

The tariff of 15 per cent. was approved by the Dáil and is contained in the Finance Act 1924, section 19.

It was realised by the Irish Free State Government that this tariff would be revenue producing for some considerable time, and therefore not more than partially protective. It was thought that British manufacturers of boots and shoes might establish branch factories within the tariff wall. This had already happened in the case of manufacturers of tobacco and cigarettes, and subsequently happened in the case of toffee and sweet factories; but no British manufacturer has up to the present, nearly three years after the imposition of the tariff, entered the Irish Free State for the purpose of manufacturing or finishing, and the trade done by British firms with the Irish Free State has not decreased since the duty commenced to operate. There are many divergent statements made by residents in the Irish Free State regarding the effect upon prices of the tariff, and it is the purpose of the present article to trace the history of the tariff, as disclosed by the available statistical material, since May 1924.

The intention of the framers of the tariff was to "develop strongly" the boot and shoe industry and with it the tanning industry. If one might express the Government's reasoning in plain terms, it must have been something like this. "We import approximately 3,500,000 pairs of leather boots and shoes each year. We want to produce more and to import less. We realise that the efficiency of the British manufacturer is more than 15 per cent. higher than the efficiency of the Saorstat producer; but we must allow British boots to continue to enter the country, because otherwise the people must largely go without footwear. By taxing foreign boots to the extent of 15 per cent. we are simply giving an indirect subsidy to the Irish Free State manufacturers to enable them to increase their output. If we wanted to have the whole of the domestic market, a tariff of much more than 15 per cent. would be necessary." If this reasoning is not correct, then it is difficult to understand why such an inadequate tariff was imposed. The continued importation of British boots and shoes, without any decrease in the quantity, proves that the British manufacturer can compete with the manufacturer in the Irish Free State despite the 15 per cent. tariff.

It may be taken for granted—the external trade statistics will tell us—that the British manufacturers of boots and shoes did not allow their reasoning faculties to remain dormant at this turn of events in the Irish Free State. Of their total export of boots and shoes (of leather) the Irish Free State takes one-third. It is therefore an important market: by far the most important individual market for British boots and shoes. Normally in the past (the British manufacturer might have reasoned in January 1924) we have sent no more than 280,000 pairs of boots and shoes into the Irish Free State each month. Our customers in the Irish Free State have hinted to us that there may be a tariff on boots and shoes in the 1924 Finance Bill. Between now and the date of the tariff we shall send a large supply to meet the demands of our customers there. . . . In the result they sent:

352,000 pairs in February,
463,000 pairs in March,
430,000 pairs in April,
585,000 pairs in May.

But that is merely a forestalling of the tariff, and the June figures show the reaction to an exceptionally low figure of 150,000 pairs.

Henceforth the trade must be kept going on more normal lines. The British manufacturer can add 15 per cent. to the price of the goods and trust to his more-than-15-per-cent. extra efficiency to enable him to retain his market. He can, as an alternative, decide that 15 per cent. is perhaps too heavy, and bear part of the increase himself. Finally, he can charge the tax or some part of it in the quality of the boots and shoes. How, then, did the manufacturer react to the altered circumstances of the Irish Free State market? It ought to be possible to obtain at least an index to probable answers from the official import and export trade statistics. There are available both the Saorstat returns of imports into the Saorstat, and the Board of Trade statistics of exports to the Saorstat. It is impossible to obtain agreement between the two sets of statistics in detail. The quantities which leave Great Britain do not sometimes enter the Free State, if the figures of both countries are correct; and sometimes greater quantities enter the Free State from Great Britain than are returned as having left British ports. Besides, there are slight internal variations in the Saorstat returns as quoted officially from year to year. Considering the manner in which the statistics are collected and their general "efficiency" or reliability relative to the truth of the foreign trade, these differences of detail may be dismissed with a notice of their existence. The figures here quoted have been accepted, after a scrutiny of the monthly, quarterly and yearly returns of both countries, as being the best which can be obtained.

From the Board of Trade statistics one may obtain the figures of exports of boots and shoes to the Irish Free State from April 1, 1923. The corresponding import statistics of the Irish Free State are available only from January 1, 1924. As the pre-tariff figures are of the utmost importance, nine-monthly statistics are here compared.

Boots and Shoes (Leather) consigned from Great Britain and Northern Ireland to the Irish Free State :—

		Dozen pairs.	Value. £	Per pair. s.	d.
Nine months, April–December	1923	219,000	1,336,000	10	2
,, ,, ,, ,,	1924	247,000	1,392,000	9	4¾
,, ,, ,, ,,	1925	260,000	1,300,000	8	4
,, ,, ,, ,,	1926	255,000	1,256,000	8	2½

Adding the 15 per cent. tax, the declared value plus tariff is 10*s*. 9¾*d*. for 1924; 9*s*. 7*d*. for 1925; 9*s*. 5¼*d*. for 1926.

The effect of the tariff on wholesale prices in the Irish Free State, taking these broad averages, was an increase in the price in 1924 of 6·3 per cent. over the average 1923 prices: the British manufacturer bore 8·7 per cent. of the tariff and "passed on" 6·3 per cent. In 1925 the gross price is 9*s.* 7*d.* per pair, showing a decrease from 1923 average prices of 5¾ per cent. The British manufacturer bore the entire tariff of 15 per cent. and reduced prices by an extra 5¾ per cent. A tariff of 20 per cent. would have furnished extra revenue to the Free State Government, kept prices level, and would have had no effect on the imports of boots and shoes.

These are conclusions which, except as general indices, are not proper to be taken as quite accurate. The Board of Trade statistics of exports of boots and shoes seem to be understated in quantities, and the 1923 figures are not as reliable as those for subsequent years, when we are in possession of a check on these statistics from the Irish Free State side. The enumeration and valuation of non-dutiable goods (and therefore of all exports) may generally be assumed to be less carefully made by the merchant and less closely scrutinised by the official than of dutiable goods.

Turning aside from the nine-monthly averages to the monthly figures, fresh light is thrown on the subject. From these it seems probable that the British trade decided to adopt the policy of price cutting about March 1925. The Minister for Finance had expressed the hope, in his Budget speech, that after a year's experience of the operation of the tariff one would have a clearer notion of its efficacy. It was after about one year that the British manufacturers were able to make up their minds on this point. One cannot avoid the conclusion that, granted the acceptance of the tariff policy, there was a case for an increase of the tariff to 25 per cent. at the time the 1925 Finance Resolutions were under consideration in Dublin.

While the average price in 1923 was about 10*s.* 2*d.* per pair, the large May imports averaged 10*s.* 7*d.* The immediate effect of the tariff was to cause a lowering of the price, for greatly decreased quantities, to an average of 8*s.* 10½*d.* for June and of 8*s.* 9*d.* for July, 1924. Twelve months later, in June and July 1925, the invoiced prices averaged 7*s.* 2¾*d.* and 7*s.* 0¼*d.* The months of August and September seem to be dear months, perhaps because stocks are then being replenished for the autumn and winter. In these months of 1924 the prices went back almost to pre-tariff figures, viz. August 9*s.* 3¾*d.*, September

9*s.* 3¾*d.*; but a year later the prices were: August 6*s.* 9½*d.*, September 8*s.* 1¾*d.*

In March 1924, when the duty was being forestalled, the imports were 38,600 dozen pairs, and the average price per pair was 9*s.* 6¼*d.* In March 1925, when the tariff was in operation, the imports were 65,700 dozen pairs, and the average price per pair was only 5*s.* 10*d.*, a big drop from the pre-tariff price. The imports had increased beyond the abnormal "forestalling" imports by over 70 per cent.; the price had dropped, despite the 15 per cent. tariff, by over 38 per cent.

There remains, however, to be considered how far a decrease in boot and shoe prices may have been due to other causes besides the Irish tariff. If in the nine months ended December 31, 1923, the Irish Free State market for British boots and shoes is eliminated from the Board of Trade statistics, it is found that the average price per unit of export was 8*s.* 7½*d.*; but the average for the entire exports of boots and shoes of leather was 9*s.* 1¾*d.*; while the average for exports to the Irish Free State was 10*s.* 2*d.* It is necessary to work on the first of these averages and see how the subsequent years' prices compare.

For 1924 (January to December) the average was 7*s.* 10¼*d.* For 1925 the average was 7*s.* 7¼*d.*, and for 1926, 7*s.* 7½*d.* Supposing that the prices of boots and shoes sent to the Irish Free State had varied proportionately, using the 1923 average as basic, the figures would be: 1924, 9*s.* 3*d.*; 1925, 9*s.* 0½*d.*; 1926, 9*s.* 0½*d.* Assuming that, in the absence of any tariff, Irish Free State prices ought to have followed this course, the following position is reached :—

		s.	*d.*		*s.*	*d.*		*s.*	*d.*
(1) Course of prices without tariff	1924,	9	3;	1925,	9	0½;	1926,	9	0½
(2) Add tariff to (1) . . .	,,	10	7½;	,,	10	4¾;	,,	10	4¼
(3) Actual course of prices (tariff middle of 1924) . .	,,	9	0;	,,	8	5;	,,	8	1½
(4) Add tariff 15 per cent. to (3) .	,,	10	4;	,,	9	8;	,,	9	4½

In order to compare pre-tariff with post-tariff figures, the statistics for June–December 1924 are substituted in (3) for those of January–December 1924, and give an average price of 9*s.* per pair (against 9*s.* 5¼*d.* for the full year).

The conclusion appears to be that the British exporter bore some part of the tariff in every one of the three years; and that he bore a greater proportion of it in 1925 than in 1924; and a greater proportion in 1926 than in 1925. It is unsafe to make a more detailed deduction; but the figures, if they were perfectly

accurate indices to what actually happened, which they undoubtedly are not, show that the 15 per cent. tariff was borne in 1924, as to one-fourth part by the British exporter and as to three-fourths parts part by the Irish Free State importer; in 1925, half by each; and in 1926 three-quarters by the British exporter and one-quarter by the Irish importer.

These deductions are the original deductions from the Irish Free State figures, as corrected by the general figures of the entire export trade in boots and shoes of Great Britain and Northern Ireland.

The number of persons employed in the bootmaking industry in the Irish Free State is small. Prior to the imposition of the tariff, the number was about 350. Official figures, quoted by the Minister for Industry and Commerce, give the numbers employed at December 1, 1924, as 678, and at June 1, 1925, as 847.

This appears to be a curious case in which the tariff is thrown, more or less, on the "foreigner." To one acquainted with Irish trade conditions, this is not an isolated "curiosus." The Irish trade gives to many English manufacturers a higher rate of gross profit than their domestic or their average total trade. Woollen or worsted manufacturers, for example, are in the same happy position as the bootmakers, but while the latter have apparently had to forego some of the extra profit, to the benefit of the Treasury of the Irish Free State, the woollen manufacturers and others are still in enjoyment of a peculiar differential advantage, the cause of which must be sought in the pages of Irish industrial history.

T. J. KIERNAN

OFFICIAL PAPERS

Committee on Industry and Trade. *Factors in Industrial and Commercial Efficiency. Being Part I of a Survey of Industries.* (Stationery Office. 1927. Pp. 544. 5*s*.)

THIS is the third volume issued by the Balfour Committee. Like the previous volumes, it is largely based on data provided by Government Departments, and thereby publicity is obtained for much valuable information which might otherwise have remained in the archives. But the Committee have in this case also made use of, completed, and tested evidence submitted to them. The result is another handbook of the first importance to both students and the public. It is to be read especially in

relation to their last volume, on Industrial Relations: for the whole of what has been called the "rationalising" of Industry involves both efficiency of structure and, within such framework, the conditions of workability. In this, as in the earlier volumes, the Committee have done much more than supply material to the teacher, the student, and the public; on controversial subjects, such as the combination movement, and the "safeguarding" policy, they present the facts with great impartiality, leaving final judgments still to be weighed; they have said enough, and have given pointers toward such judgments; and they have done it, both in the text and the Introduction, with admirable literary finish and arrangement.

The matters dealt with are Industrial Structure, Training and Recruitment, Standardisation, Scientific Research, Industrial Art, the State measures for meeting post-war difficulties of industry, and the Profits, Savings, and Charges which emerge from and surround the general question of Efficiency. These are the factors which it has seemed most suitable to deal with as a whole; in a Second Part they propose to deal with industries in detail.

The chapter on Industrial Structure deals mainly with the size of businesses, and with industrial combination. As regards the former, it is evident that not much statistical information is yet available in this country. The work of Sir Sydney Chapman still stands by itself. We have the distribution of companies by size, on the basis of nominal capitalisation (p. 127), an imperfect method of periodic comparison, and giving the surprising result that, for capitalisations above £20,000, there are many fewer companies registered after than before the war. We have nothing to compare with the detail furnished in this respect by the American Census of Manufactures, based on product and employed personnel. The new Census of Production will, the Committee hope, tabulate results which will lay the foundation for future comparisons of this kind. The indications are that small businesses are very tenacious of their place, in spite of all technical and combination movements. The argument regarding the combination movement is very fully laid out; we have something more systematic in analysis, description, and international comparison than the timid Report of the Committee on Trusts of 1918. The Committee do not think that combines cover more than one-fifth of the field of industry; but this, of course, does not measure their significance, if they are strong in fundamental and penetrating industries. It is evident, however, that we have passed the "sensational" period of the

Trust question; these structures can now be discussed positively and moderately, the main danger being, perhaps, that of a permanent judgment being rushed by the conditions of the post-war conjuncture, just as on the whole it may have been rushed the other way by the pre-war conjuncture after 1895. Sympathies are more with the producer now, as with the consumer then. It is the international developments which are now the crux of the question. Here it is important to note first, that not much is known about the international agreements; second, that the Committee find that, as a rule, the object has been especially the exclusion of foreign competition from home markets. Much will no doubt be heard at Geneva of the relation of this important condition to tariff policies as combination may affect them.

The Ministry of Labour supplies, in the second chapter, a Memorandum on Apprenticeship. There has been for some time no thorough inquiry into this subject of the "element of *acquired* skill," and the methods of creating it. There is the "atmosphere" of localised industries, on which Marshall laid stress, and which the Committee regard as still of great importance. As regards formal apprenticeship, a complete answer cannot yet be given as regards its tendency; the present number of male apprentices may be about 300,000. It is of interest to note the extent to which Joint Industrial Councils and Trade Boards are now concerning themselves with this subject, or with less formal methods such as learnership. Is the Technical School to be the rival of the Apprenticeship system? Then, at present, only "about 25 per cent. of the boys, and 22 per cent. of the girls," who leave Elementary Schools begin part-time education in day and evening classes. The Committee come to the conclusion that the full possibilities of co-operation between industry and technical education will not be secured by Advisory Committees only, but that the corporate interest of the industries must be obtained, each surveying from its own standpoint what technical education can do for it, and giving effective assistance in the conduct of technical education. The survey of Commercial Education concludes with, on the whole, a favourable opinion on the recent institution of Degrees in Commerce.

The chapter on Standardisation may be read with the Memorandum prepared for the Geneva Conference on "Rationalisation in the United States." In spite of the work of the British Engineering Standards Association, of which a detailed account

is given, the Committee find that there are still many branches of industry where there is great waste in the absence of any attempt to simplify. Apart from the question of waste, they point out the importance of this principle to steadiness of employment, through the greater security in making for stock; as an instance of its advantage to dealers, and to distributive costs, they estimate that the value of ironmongers' stocks is about 30 millions, of which 20 per cent. might be saved by standardisation. The Table on pp. 302—3, showing the reduction in sizes or varieties made by the American Division of Simplified Practice, the *reduction* in many cases being over 90 per cent., is a telling conclusion to this chapter, though there are some items in respect of which the consumer may seem to be somewhat strait-jacketed. The chapter on Industrial Art, giving prominence to an aspect of efficiency which has had less than its proper share of attention, and calling for further research into the status of the workshop designer, appears to emphasise, for at least some industries mentioned, that variety has claims as well as simplification, and that industrial design as a whole would suffer by the disappearance of the artist-craftsman.

The concluding chapters deal with post-war conditions. That on the State Measures for meeting Post-war Difficulties of Industry, prominent among which are the new Customs Duties, is written with complete avoidance of controversy, and is well covered by the remark in the Introduction that "in times of national emergency or transition the limits of public action for the encouragement of trade may be widely different from those appropriate to permanent and normal conditions." The conclusions as regards the burdens on industry are, that no proper data exist for an international comparison in this respect; that high income tax may in some cases directly fall on costs (especially where professional services are employed); that, all over, the burden of local rates may be $1\frac{1}{4}$ per cent. of the value of the net product (the statistical tables presented being of much interest), and has increased since 1913 in the ratio of 11 to 7; that the "social charges" on industry may have doubled, being now in the neighbourhood of 2 to 3 per cent. of the net product. Transport charges are also a larger percentage on cost. The relation of differences of this magnitude to the decline in profits and savings shows that the difficulties of industry are mainly due to other causes.

The Committee perceive the whole problem as one of the reactions of an industrial organism to changing conditions. Free

and quick reactions are not inconsistent with stability. Structures, relationships, and processes within industry, the conditions of preparation for industry, above all industrial leadership and enterprise, must be adapted to a world which is likely to change quickly, and to make large demands on mutual consideration between employer, employee and the community. Whether especially combination, and the new forms of it which are foreshadowed, will mean conflict or co-operation between leaders on both sides, and therefore much or little public intervention, will depend on the degree to which leadership in the near future is, in the Committee's word, "imaginative" and therefore considerate.

D. H. MACGREGOR

Report of the Unemployment Insurance (Blanesburgh) Committee. (Stationery Office. 1927. Pp. 96. 1s. net.)

STATE Unemployment Insurance has been in operation since 1912, covering a limited area till 1920, and as a general system since. The whole period, therefore, represents the trial of one of the most important experiments ever made in economic and social organisation. The above Report opens with a brief and clear sketch of the development of the scheme and of the machinery by which it is carried out; and in view of the various changes in the system since 1912, this will prove most useful. The Committee's reference was to consider, in the light of its working, what changes, if any, ought to be made in the scheme. In the circumstances, this involved first a considered verdict on its working, and a decision whether or not it ought to be continued in its present form. The Committee reached an unanimous or at least agreed verdict for the continuance both of the scheme and of the contributory principle as its basis. A point worth noting is that "no suggestion has been received from or on behalf of employers that they should be relieved of a share of the contribution." Secondly, subject to this verdict, it had to be decided what general principles should govern a revised system and what detailed changes were required. Part I of the Report deals with the case for continuing the present contributory system, and with the main features of the proposed revision. Part II is devoted to the numerous subsidiary, but still important, problems that arise. A valuable feature of the Report is its confirmation, as against popular misunderstandings and misrepresentations, of the favourable conclusions reached by various other expert inquiries.

The proper place of contributory insurance in dealing with unemployment is carefully kept in view; and the need for removing the causes of unemployment is rightly emphasised. Some excellent suggestions are put forward (pp. 23–7), though the Committee might perhaps have explored more fully the possibility of mitigating the trade cycle by careful organisation of public works; and it might also have been worth considering whether more might not be done by employers to foresee and guard against trade depressions.

The verdict on the scheme depends mainly on two things, financial soundness and liability to abuse. On finance, the Committee point out that since 1920 £278,000,000 has been paid in benefits, and that, after an exceptional trade depression, the deficit just before the coal strike was only £7,000,000. This deficit too represents a loan repayable to the Treasury. In face of these facts, the argument, still sometimes advanced, that "extended" benefit is a "dole, since it is only out-relief paid from the taxes," seems to hold little water. Moreover, the working of insurance of this kind almost necessarily involves excess of expenditure over receipts in bad years. As Sir William Beveridge has well said, "it is wrong in principle that the fund should make a profit during severe unemployment; if it makes a profit in bad years its contributions are too high for its benefits." The present basis of the scheme, therefore, seems actuarially quite sound and to leave some margin for reduction in benefits in a normal period.

The lower rates proposed by the Committee assume, after allowance for various adjustments in benefits, an average unemployment of 6 per cent. in a normal trade cycle, or a total number of 720,000 to 725,000 of the 12,041,000 insured contributors of July 1926. This 6 per cent. represents a considerable increase over pre-war experience of unemployment; but even so, to allow a maximum unemployment during a cycle of 1,150,000, the minimum must be as low as 300,000. Thus the Committee's estimates may well prove too optimistic as regards the immediate future, and the introduction of their reduced rates may thus have to be postponed.

The question of abuse is vital, not only as regards the retention of the scheme, but because, if serious, it involves strict limitation of periods of benefit. The object in view is to secure the "genuine unemployed," genuinely "capable of work," adequate insurance over their period of unemployment, whilst restrictions in periods of benefit tend to remove it just when it is most needed. The Committee's conclusions, based largely on the information

of the Ministry of Labour, are, therefore, reassuring. "The claims ultimately disallowed were well under 5 per cent. of all those current, and a very large number disallowed were so doubtful as to be subject of a legitimate difference of opinion." Corroborative evidence is also quoted, notably that of the Charity Organisation Society, who frankly admitted finding much less abuse than they expected. Indeed, on this point the general attitude of the insured seems fundamentally sound, and other expert evidence confirms this view. Various detailed defects, and special difficulties in regard to particular classes, like the very casually employed, youths under twenty-one and married women, were found. The Committee's analysis of these is very useful, also, in stopping loopholes for abuse, as in the suggestion for a clearer definition of "genuinely seeking work," the provision for reduced benefits between eighteen and twenty-one, where at present they approximate too closely to wage rates, and in the proposed requirement of a minimum of thirty contributions in two years.

The Committee's scheme attempts to combine a real insurance definitely covering the period of unemployment, with such safeguards against abuse, as that rates of benefit should encourage neither improvidence in good years nor preference of benefit to work and should be below the general labourers' rate of wages. They propose to abolish the limits to periods of benefit—the "1 in 6" and "26 weeks" rules—thus combining "standard" and extended benefits, and to trust to strict administration and the "30 contributions" limit to check abuses. A particularly valuable proposal makes "training allowance" under eighteen conditional on attendance at courses of instruction, and indeed under these conditions the insurance age might with advantage be reduced to fourteen. On the other hand, the needs of industry and the position of trades with low unemployment risks require as low rates of contribution as possible and careful husbanding of resources. The Committee, therefore, wisely reject expensive proposals, like abolishing the "waiting period," especially as the hardship from unemployment is least in its opening days.

The Committee also cover many detailed questions, including the trade dispute disqualification, trade union administration of benefits, "surrender values" on marriage, and co-operation of employers and employment exchanges. Among other things they propose somewhat to extend protection from loss of benefit to those indirectly affected by trade disputes. A strong case is put forward against attempting to use benefit as a contribution

to wages in order to create work. In particular this would favour those who dismiss work-people at the earliest moment against those who try to retain them in employment; and attention has been drawn elsewhere to a possible tendency of insurance to lead to earlier dismissals than in the past.

The Committee have done valuable work, not only in their interesting detailed examination of the scheme, but in strongly emphasising the practicability of adequate insurance at reasonable cost. The criticisms advanced above rest mainly on matters of detail; and the one serious doubt arises over the immediate possibility of the scheme of reduced contributions. The real differences of opinion which underly this agreed Report seem in many ways a tribute to the insurance system. For the fact that those holding such different opinions could sink their disagreements in order to make the best of the existing scheme emphasises the real value and importance of its work.

N. B. DEARLE

OTHER OFFICIAL PAPERS

Home Office. *Report of the Departmental Committee on the Supervision of Charities.* (Cmd. 2823. 9*d*.)

No universal system is recommended. The Charity Commissioners should have power to inquire into the affairs of collecting charities on due representation.

Report of the Committee of Enquiry into Government Printing Establishments. (Cmd. 2828. 4*s*.)

AN important administrative inquiry, but mainly on the technical side.

Agricultural Research and Administration in the Non-Self-Governing Dependencies. (Cmd. 2825. 2*s*.)

TRAINING and Recruitment of Officers, Organisation of Research, Conditions of Service in Colonial Agricultural Departments.

Estimates of the Working Population of Certain Countries in 1931 *and* 1941. By PROFESSOR A. L. BOWLEY. (Submitted to the Preparatory Committee for the International Economic Conference. League of Nations, Geneva, 1926. Price 1*s*.)

THE estimates relate to persons between the ages of fifteen and seventy, for eleven countries, computed on the basis of birth and death rates. They are therefore subject to qualification by migration, which cannot be estimated. The three decades from 1910 to 1941 have each special characteristics—the immediate effect of the war, the resumption of normal rates of growth, the delayed effect of the war. Within the age-groups taken, the proportion of males to females which obtained in Great Britain in 1911 is estimated as restored in 1941.

Sixty-ninth Report of the Commissioners of Inland Revenue: Year ended 31*st March*, 1926. (Cmd. 2783. 2*s*.)

THE usual full statistical tables are given of basis of levy, distribution of the levy, and amounts realised, for Death Duties, Income Tax and Super-tax, Land Tax, Stamp Duties, and minor taxes. The net super-tax payable for 1925–6 shows a sharp decline. Payments out of the Exchequer to the Local Taxation Accounts now approach 10 millions, having more than doubled since 1915–16.

Report of the Delegation appointed to study Industrial Conditions in Canada and the U.S.A. (Cmd. 2833. 1*s*.)

THIS Delegation spent altogether three months in Canada and the United States, so that its Report is summary and impressionist. They express the opinion that combines, mass production, standardisation, and simplification have reduced costs and extended the market. The reduction of immigration has speeded up the use of mechanical processes, labouring work is continually being replaced by machine minding, and the product for the worker is generally much in advance of 1914. Mobility of labour is a considerable obstacle to plans for organising industrial relations within each plant, but progress is reported under various arrangements, which are already well known. The study of the special function of Management is being carried on in its technical, statistical, and consultative aspects, and employees are given such opportunities for advancement as to engage their interest in the avoidance of waste. Payment by results is in operation

wherever possible. The visit of the Delegation took place during a period of great industrial activity, and the facts recorded—with qualifications which are not minimised—reflect an environment of confidence.

Public Accounts Committee. *Epitome of the Reports from the Committees of Public Accounts* 1857 *to* 1925, *and of the Treasury Minutes thereon, with an Index.* (Stationery Office, 1927. Pp. 741. 12*s.*)

Reparation Commission. Official Documents. *The Expert's Plan for Reparation Payments.* (Reports of the Committees of Experts. The London Agreements, August 1924. The new Bank of the Reich. The new German Railway Company. The Industrial Charge. The External Loan.)

Board of Trade. *Safeguarding of Industries. Report of the Committee on Light Leather Goods and Metal Fittings.* (Cmd. 2837. 4*d.*) *Report of the Committee on Table-ware of Translucent Pottery.* (Cmd. 2838. 9*d.*)

IN the opinion of the former of these Committees, the applicants failed to make out their case, especially in respect of the "unfairness" of the foreign competition. In the latter instance, the application was sustained, it being held proved that the difference between home and foreign wages amounted to "unfairness," and a duty of 28*s.* per cwt. has been imposed.

Foreign Office. *Memorandum on Labour Conditions in China.* (Cmd. 2846. 6*d.*)

THIS Memorandum is of great importance to students of industrial evolution, the conditions reported being such as to recall the darkest days of the Industrial Revolution. It is stated that the movement for the betterment of factory conditions "was initiated, and has been led, by foreigners, both missionaries and capitalists."

The Collection and Disposal of the Maritime and Native Customs Revenue since the Revolution of 1911. (With an account of the Loan Services administered by the Inspector-General of Customs.) Shanghai, 1927. Statistical Department of the Inspectorate-General of Customs. By S. F. WRIGHT (Pp. 276. 5 silver dollars.)

State of New York. *Annual Report of the State Tax Commission*, 1925. Albany, N.Y.: J. B. Lyon Company. Pp. 526.

Commonwealth of Australia. *Official Yearbook*, No. 19, 1926.

Einzelschriften zur Statistik des deutschen Reichs. No. 2. *Die Staatsausgaben von Grossbritannien, Frankreich, Belgien, und Italien in der Vor- und Nachkriegszeit*. (Berlin, 1927; Hobbing. Pp. 575.)

Vestnik Financoff. Monthly Publication of the People's Commissariat of Finance of U.S.S.R. Nos. 1 and 2. (Moscow, 1927.)

THESE issues of the Financial Journal of the U.S.S.R. (written in Russian) contain articles on principles of taxation and finance, of which the most general are by Professor P. Masloff on *Principles of Rural Taxation*, and Professor K. F. Shmeleff on *The Problem of the Burden of Taxation*. There are numerous memoranda on matters of a more special kind.

Statistique des Finances de l'Union des Républiques Soviétiques Socialistes. (Livraison 4. Moscow, September 1926.)

THE Budget for 1925–6 for the Union, together with the provisional figures of the local Budgets. More than half the Central Revenue is derived from transport and excise, less than one-tenth from State lands and enterprises, about three per cent. from income tax. There are also tables of banking and monetary statistics, the course of prices and exchange.

OBITUARY

FRIEDRICH VON WIESER

THE last of the three founders of what has been called the Austrian School passed away on July 23, 1926, a few days after having completed his seventy-fifth year, still full of vigour of mind and body.

Baron Friedrich von Wieser, born on July 10, 1851, the son of the Privy Councillor Baron Leopold von Wieser, was educated in Vienna, where he took his degree in 1872. Up to this time his favourite studies had been historical, but in 1872 he came across Menger's *Grundsätze*, the perusal of which made him a convert to economic theory. He continued along the path thus opened up before him during his years of study at the universities of Heidelberg, Jena and Leipzig which followed, and during his short employ in the Civil Service preceding his becoming "Privatdozent" at the university of Vienna in 1883 and his being called to the university of Prague in 1884, whence he returned to Vienna in 1903, succeeding Karl Menger. Passing by minor events of his career, I would only mention that he entered the "Herrenhaus" (House of Lords) as a life member in 1917, and that he took Cabinet office as Minister of Commerce in the same year. After his resignation he returned again to his Chair and to his scientific work.

It is not easy to convey an adequate impression to anyone, who did not know him, of this eminent man, who fascinated wherever he went. His fine presence, his singular and quite unconventional charm and dignity of manner, something which gave weight to his every word, something else indefinably artistic about his personality, a sublime repose in whatever he said or did expressive of wide horizons—all this defies description. Perhaps the only thing I can do is to tell that, when we were celebrating his seventieth birthday, three speakers, myself included, compared him, independently of each other, to Goethe. He was *always* active, *never* in a hurry, *interested* in everything—among other things he was a prominent connoisseur and sedulous patron of art—*upset* by nothing. There was some charmed recess within him into which no public or private misfortune seemed able to cut. Every honour or success came to him naturally and with-

out effort and clothed him as if he had never been without it—yet did not seem to mean anything to him. He never fought for or against anything—but every difficulty seemed to give way before him. And old age itself, the destroyer of other men, to him only added, as it were, finishing touches, improving a picture which it always was an æsthetic pleasure to look at.

It is still more difficult to define within a short page or two the character of his scientific work, especially to English readers; for his way of expressing himself was strikingly unEnglish, and it is to be feared that even the well-known translation and interpretation of part of his work by Professor Smart has done but little to impress his real importance on the English and American public. He was deficient in technique and is one of the few examples of clear thinking not implying concise writing. An appendix to the best of the obituary notices which have so far appeared, the one by F. A. von Hayek in the *Jahrbuecher für Nationalökonomie und Statistik*, 1926, contains a full list of his writings, running to sixty-two items. We must confine ourselves to indicating briefly the general trend of his thought.

He was a theorist first of all. What Menger did for him was not so much giving him an *idea* as the *impulse* to develop his own ideas. Few men have thought so deeply on the fundamentals of the theory of value or have had so clear a vision of the groundwork of economics. And the best part of the energy of his prime was given to working out patiently the views and methods summed up in his book entitled *Der Natürliche Wert* (1889), to which he led up by his *Ursprung und Hauptgesetze des wirtschaftlichen Güterwertes* (1884), containing a first exposition of his theories of the "Grenznutzen," of cost of production explained by "indirect utility" (the theorem which has been called Wieser's law by Pantaleoni), and of "imputation" (*Zurechnung*). These things are well known. But what I should like to insist upon is not the importance of any single instrument or theorem of his, but the fertility and grandeur of his conception of economic life as a whole, well brought out by the device of reasoning about a communistic society. Much progress has since been made in the theory of the equilibrium of prices, but of late, if I am not very much mistaken, questions are cropping up which may force us to go back again to those fundamental ideas which many of us now believe to be obsolete.

After the publication of his *Natural Value* he dropped this line of thought for twenty years. But once more he returned to it in 1909, and in 1914 he published, in that encyclopædic

Grundriss der Sozialoekonomik, his "Theorie der gesellschaftlichen Wirtschaft," his last and ripest message on pure theory which, owing to the war, is only now beginning to make its influence felt.

Much like Walras and others, he had turned meanwhile to the theory of money, building up slowly and from within—not looking at what other people wrote—what will always rank with the best performances of our age in this field. His first utterance on the subject was his inaugural address given in 1903 after his election to the chair of Menger, his last the article on Money in the *Handwoerterbuch der Staatswissenschaften*, which he finished but a short time before he died. He approached the subject by way of investigating into historical changes in the purchasing power of money, and aimed at giving to the quantity theorem the same sort of foundation which his theory of value had given to the law of Cost. Those who really understand monetary theory are none too numerous. Among them there is happily very much in common, and what differences remain are partly little more than differences in taste and technique. Therefore Wieser's treatment necessarily runs parallel with that of others for a considerable part of the way. But in some points—developed later by such men as F. X. Weiss and L. v. Mises—it seems to me to pierce farther below the surface than any other.

The chief work of his later years, however, centred in Sociology, in the sense in which it may be defined as an analysis of history, or, as he himself defined it with that power he had of coining striking words, as "history without names." Historical Sociology, or Sociological History, had been his first interest, and it was to be his last. After toiling at it with youthful energy for years, he published, when seventy-four years of age, his great sociological book, entitled *Das Gesetz der Macht*—thus achieving what he had in his mind to do when still at school, and gathering in the harvest of his thought in that field.

So there was nothing casual or incomplete or devious or distorted about this life. Every element of it formed part of an harmonious whole, which unfolded itself slowly and grew organically to an imposing height and breadth.

JOSEPH SCHUMPETER

LUIGI LUZZATTI

WITH the death of Luigi Luzzatti there disappears from the scientific and political scene of Italy and of the world one of the brightest and noblest figures that have sparkled in it. Even in the

field of theoretical economics Luzzatti established a distinguished claim to honour, when, in 1874, he strongly combated Francesco Ferrara, the leader of liberal economics, who proposed to banish Ricardo from the Italian schools and to limit the whole of economic knowledge to the social *théodicée* of Say and Bastiat. But Luzzatti did not restrict himself to that task. In the following year, together with Lampertico and Scialoja, he assembled the economists of Italy in Milan to fix the fundamental principles of the new school of economics. In 1876, for the centenary of *The Wealth of Nations*, Luzzatti published an essay on Adam Smith, which offers even to-day some interest and instruction. And afterwards, in a series of papers, essays and speeches, he explained the more complicated phenomena of money, credit, bank restrictions, customs duties, illustrated the origin and development of English social legislation, and discussed the more interesting aspects of the economic action of the State.

But the scientific work of Luzzatti, worthy though it is, is of secondary importance as compared with his multifarious activity in the fields of economic policy. Indeed, most of the various manifestations of Italian economic policy found their origin and received their stamp from his mind and his work. The first and greatest title of honour he acquired in these fields was the foundation of the People's Banks, the structure of which he perfected, introducing the principle (unknown to Schulze-Delitzsch) of limited liability. He promoted their diffusion in his own province by his work, *The Diffusion of Popular Credit in the Venetian Provinces* (1863), and afterwards, by an indefatigable apostolate, he extended that institution to every part of Italy. As general secretary of the Ministry of Agriculture, he valiantly promoted social legislation, above all the restrictions on women's and children's labour. He was the warmest supporter of co-operation in all its forms, of Postal Saving Banks, of Social Insurance in its various aspects, of the housing of the people, of protection to emigrants, of anti-drinking legislation, of the protection of young girls. He negotiated with the greatest skill thirty treaties of commerce and obtained remarkable advantages for Italian industry in foreign trade. In 1906 he happily accomplished the conversion of the Italian public debt, and constantly struggled with the greatest energy for the equilibrium of the budget, strongly opposing the increase of public expenditure. After the war, he proposed an ingenious plan (which has found some applications) towards establishing international agreements between Banks of Issue, for avoiding the transmission of gold; and he supported with his great

authority the deflationist policy, thus contributing to salutary reforms in the practices of the Government.

We must, in the ECONOMIC JOURNAL, consider Luzzatti primarily as a political economist. But his position as an economist cannot be fairly sketched without a glance at the various other expressions of his universal mind. He was open, indeed, to all the currents of modern thought, and to philosophy, history, public law, international peace and brotherhood, and religion he brought a noble note of sympathy and pity. A splendid page in his life was his indignant denunciation of the barbarous persecutions of the Armenians and the Jews. He was a warm promoter of friendship between Italy and France, too often compromised by unjustifiable misunderstandings. But his broad and various spirit reflected itself best of all in his economic work, which was not confined to the dead marshes of profit and loss, but rose to the highest conceptions and to the most sublime aspirations. Enemy of every sort of materialism—including historical materialism, which he brilliantly attacked—he demanded, nevertheless, the widest freedom for every opinion and every critic. Enemy of Socialism, yet he found some of his warmest admirers amongst the Socialists themselves, who could not forget his fervent interest in the poor and his valiant struggles for their gradual elevation.

A singular and eminent figure, whom it is difficult to reduce to a precise and rectilinear synthesis. For the practical character of his work, he could be compared to Cobden, if his action had not followed a course diametrically opposed to that of the English agitator. For whilst the latter struggled for free trade and was an enemy of social legislation, Luzzatti was at times a decided Protectionist, and ever a supporter of social legislation. For his shining vision of a nobler and higher humanity, for his warm apostolate of every form of progress, he could be compared to John Stuart Mill, from whom, however, he differed substantially in his spiritual and theistic convictions. On that last point he presents some resemblance to Tolstoi, although never acceding to the mystical fancies of the Russian prophet. For his splendid eloquence, the liberalism of his politics, his democratic tendencies and his financial measures he could be compared to Gladstone, but the different fields of their activities impair the comparison.

Indeed, to compare Luzzatti to men of foreign countries is an impossible task, precisely for the reason that he was, at every moment of his life, an essentially Italian nature, worthy and

legitimate heir of those men of the Italian Renaissance whose versatile souls roamed in the most diverse spheres and drew from the innumerable expressions of life and thought the strength and the impulse to a universal vision. Gigantic figures, whose powerful mould is, alas ! ruthlessly destroyed by the all-pervading specialism of to-day and whose memory fills with regret the hearts of their latter-day successors for a kind of greatness which is no longer attainable.

ACHILLE LORIA

PHILIP HENRY WICKSTEED (1844–1927)

So versatile was Wicksteed that on his death, March 18, 1927, the leading English journal, dwelling on his services to literature and theology, makes no mention of his economic work. Yet, while he was a well-known interpreter of Dante and Aquinas, to say nothing of Ibsen he did much for Jevons, and left a name highly honoured in Political Economy. His heart was as truly in his economic as in his other studies.

Born at Leeds October 25, 1844, he passed from Ruthin Grammar School to University College, London (School and College), became M.A. of London University (in Classics), to be afterwards Litt.D. of Leeds and Manchester. He followed at first his father's profession of Unitarian Minister; translated, from the Dutch, Kuenen's *Bible for Young People*; and from 1874 to 1897 preached as Martineau's successor in Little Portland Street Unitarian Chapel. But he had found out his gift of lecturing, and his lectures on Dante became increasingly popular in the world outside.

The power of economic reasoning and teaching was meanwhile being discovered to himself and others, in a small "economic circle," meeting in the house of Mr. H. R. Beeton, and numbering Foxwell, Shaw, and Edgeworth among its members. Wicksteed presented the first fruits of these discussions in his *Alphabet of Economic Science*, 1888, described by himself in an apologetic preface as "forty pages of almost unbroken mathematics," inspired by Jevons. When Jevons himself wrote a Primer in 1878, he left out not only the mathematics but even the final utility. Though Jevons was to the end Wicksteed's master and guide, the Alphabet was not built after the master's model, but rather on Mill's dictum, that a pupil not sometimes required to do what he cannot do never does all he can. Wicksteed, therefore, was of most use to the chosen few who had something of his own

ability. There is real descent to ordinary folk in the first book of *The Common Sense of Political Economy*,[1] and in the Address to the British Association (Section F) at Birmingham in 1913.[2] In all his writings he reaches a high level, from which he rarely, if ever, drops down, perhaps not sufficiently often for a popular audience.

The *Common Sense* was, in the author's own words, "a popular but systematic exposition of the marginal theory of economics," in 702 pages. Many readers will agree with Professor Cannan that "the homely exposition of Book I will not appeal to quite the same readers as Book II." Book I is described by the author as "Systematic and Constructive," with the minimum of controversy: Book II as "Excursive and Critical," and Book III as "Analytical and Practical." There is abundance of learning, wisdom, humour and true "common sense" everywhere in those pages: and Wicksteed lived to see the idea of final utility well absorbed into economic theory.

A shorter treatise, on *Correlation of the Laws of Distribution*, 1894, had dealt with Increasing and Decreasing Returns in the manner of the later *Common Sense* (Book II). Professor A. W. Flux (as he then was) suggested that the design of the book was better than the execution[3]: and the author frankly admits its defects.[4] Yet Wicksteed moved easily on mathematical heights, and was able on more than one occasion to follow up his friend Edgeworth by a statement in ordinary mathematical language of what his friend had said.

Compared with his writings on other subjects, Wicksteed's economic works make but a short list, even if we include articles like those in Palgrave's *Dictionary* on *Jevons* (II. 474–8, new ed.) and *Dimensions of Economic Quantities* (I. 583–5), as well as the reviews, in this JOURNAL, of *Jevons' Principles*, 1905, p. 432 seq.; Pareto's *Manuale*, 1906, p. 553; Chapman's *Political Economy*, 1913, p. 72; Davenport's *Economics of Enterprise*, 1914, p. 421. It distressed him that some who heard him gladly on Dante would not listen to him on Jevons. He himself had room for both and for much else. But it is significant that his last work, completed under bodily suffering only a few days before his death, was a translation of Aristotle's *Physics*. His last thirty years were passed in a quiet country house at Childrey, Wantage, in

[1] Reviewed by Professor Cannan in this JOURNAL, 1910, p. 394 seq.

[2] "On the Scope and Method of Political Economy in the light of the Marginal Theory," printed in this JOURNAL, March 1914, pp. 1–23.

[3] JOURNAL, 1894, p. 308 seq.

[4] *Common Sense*, 1910, pp. 373, 563.

Berkshire, where he was surrounded by his books and his grandchildren. He married Miss Emily Solly in 1868, and survived her only three years. They had eight children.

Like not a few of our best men, Wicksteed had greater influence than he ever fully knew. If the Labour Party finds its economic oracles in the Fabian Society, Wicksteed may claim to have trained our future statesmen in sound economics. We have it on the authority of Mr. George Bernard Shaw, an original member of the British Economic Association,[1] that he and the Fabian Society were converted by Wicksteed from Marx to Jevons, on Value. Mr. Shaw's intervention (ECONOMIC JOURNAL, 1918, p. 345) in the discussions concerning a Capital Levy surprised no one who was aware that the well-known author in his early days had been equipped [2] for economic discussion by Philip Wicksteed. The closing words of Wicksteed at Birmingham in 1913 (l.c., p. 22), show how little he expected from the mass of politicians, even if political economy were properly taught to them: "Social reformers and legislators will never be economists; and they will always work on economic theory of one kind or another. They will quote and apply such dicta as they can assimilate, and such acknowledged principles as seem to serve their turn."

J. B.

CURRENT TOPICS

WE much regret to announce the death on May 12, 1927, in his seventy-seventh year, of Joseph Shield Nicholson, Professor of Political Economy in the University of Edinburgh from 1880 to 1925. Professor Nicholson had been a member of the Council of the Royal Economic Society from the beginning. We hope to publish a notice of his life and work in the September JOURNAL.

The following have been elected to membership of the Royal Economic Society:—

Advani, S. T.	Barker, H.	Camusso, G. G.
Aiyar, P. K. S.	Boyer, F. C.	Cawson, F. A.
Arkless, F. C.	Byrne, J. S.	Chadwick, J. A.
Armstrong, W. E.	Burton, A. G.	Cheyney, L. F.
Banerjea, J. M.	Campbell, P. W.	Cobb, J. C.

[1] See JOURNAL, 1891, pp. 3, 13. Report of first meeting, at University College, November 21, 1890.

[2] See his letter to *The Times*, March 25, 1927.

Denaxas, A.	Mason, G. E., jun.	Smith, F.
Duthie, N. W.	Mehrotra, D. P.	Soda, Dr. K.
Ernest, C. M. J.	Mises, Prof. L.	Sri Raman, T.
Ewing, J. D. G.	Morgan, A.	Stevens, H.
Fanzder, J. S.	Morrell, F. D.	Strodder, F. O.
Gallimore, E. S.	Nakamura, E.	Vasudeva, R. B.
Ganguli, B. N.	Nurullah, M.	Wale, W. A.
Gregory, H. J.	Rao, Y. G.	Weatherill, F. W.
Griffiths, P.	Richards, D.	Webster, W. C.
Happold, Mrs. A. M.	Riches, E. J.	White, N.
Jerath, H. L.	Sharma, V.	Wijesinghe, I. H.
Jones, A. J.	Sharp, N. H.	Wormald, S.
Keyter, I. A.	Shepherd, E.	Wright, H. E.
Lees, H.	Silva, O. B. de.	Young, T. C.

The following have compounded for life membership :—

Duthie, Norman W.	Richards, David.
Ganguli, Bhupendra Nath.	Soda, Dr. Küchiro.

The following have been admitted to Library membership :—

Cardiff Public Library.
Chinese Government Bureau of Economic Information, Peking.
Library of the Commercial University, Rotterdam.
Ministry of Finance—Bureau of Markets, Shanghai.
Ministry of Foreign Affairs, Nationalist Government, Republic of China, Wu-Han.
Nobelkomnite, Oslo.
Williston Memorial Library, Massachusetts.
University of Denver Library, Colorado.

We record with regret the deaths of the following Fellows of the Society :

Adams, William	(elected 1890).
Zuckerkandl, Prof. R.	(„ 1891).

Our German correspondent writes :

" Since the first volumes of the German *Wirtschaftsenquête* will appear shortly, it may be of use to remind English economists of the task and structure of the Enquiry. Under an act of the Reichstag (Gesetz über einen Ausschuss zur Untersuchung der Erzeugungs-mod Absatzbedingungen der deutschen Wirtschaft)

of April 15, 1926, a committee has been formed to investigate German industrial, commercial and agricultural conditions. Very wide powers have been granted to it (§ 1). All members are appointed by the Government, but only nine of them are freely selected by the Government, whilst eleven have been nominated by the Reichstag—on party lines, of course—and nine by the 'Reichswirtschaftsrat,' a very important difference from the English Industrial Commission, with which this *Wirtschafts-enquête* might otherwise be compared. Ample means having been granted and sub-committees having been formed (on general economic structure, on agriculture, on industry, on efficiency of labour, and on money, credit and public finance), the committee went to work on a very comprehensive plan, drawing on all public and private sources of information—especially on the materials of the census of 1925—and examining witnesses out of number. The leading men are Dr. Hilferding, the eminent Socialist politician and theorist, and Professor Harms. Much useful information may reasonably be expected from their forthcoming publications."

Professor E. R. A. Seligman, our American Correspondent, has been recently elected a Corresponding Member of the Institute of France, to fill the place formerly occupied by Alfred Marshall. Professor Seligman has also had the Emile de Lavelleye prize conferred upon him by the Belgian Royal Academy of Sciences, Letters and Fine Arts. This prize is awarded at intervals of five years to a scholar whose scientific works are considered to have constituted an important progress in Economic Science, Social Science, Fiscal Science, International Law, Public Law, or Politics. On the last two occasions of its award the prize has fallen to Professor Gide and Alfred Marshall.

The Council of Manchester University has accepted from an anonymous donor an offer of £1,000 a year for a period of five years to establish a research post to promote the study of post-war economic and social problems in this country. Professor Henry Clay, who has been Stanley Jevons Professor of Political Economy and Cobden Lecturer in the University of Manchester since 1922, has been appointed to the new Chair of Social Economics for the period of five years, as from September 1927. The duties of the Chair are particularly concerned with the relations of Government and industry as affected by post-war problems.

With reference to Mr. Paul Einzig's article on "The Gold Points of the Exchanges To-day" published in the JOURNAL for March 1927, a South African correspondent writes to point out that there are some cases in which the interest factor need not be allowed for when calculating the gold points of an exchange; for example, in any case in which the Central Bank of a country has a statutory gold reserve against its note issue and is permitted to include in this reserve gold in transit. The South African Reserve Bank is a case in point. The fact that there is not necessarily a loss of interest during the transit of the gold enables the Bank to quote more attractive terms to the mines for their gold than they would otherwise receive, and consequently to control the marketing of the bulk of the gold output.

The Pollak Prize of five thousand dollars for the best adverse criticism of *Profits* by Foster and Catchings has been awarded to R. W. Souter, Lecturer in Economics, University of Otago, Dunedin, New Zealand. There were 435 contestants, including fifty Professors of Economics. The second place was obtained by F. L. Olmsted, landscape architect of Brookline, Mass. Amongst others, Mr. C. F. Bickerdike, Prof. A. H. Haugen of the University of Minnesota, Mr. P. W. Martin of the International Labour Office and Mr. V. V. Novoyitov, Lecturer in Currency at the Polytechnic Institute, Leningrad, received honourable mention. The judges were Mr. Owen Young, Prof. Allyn Young, and Prof. Wesley Mitchell.

Attention is called to the following offer, which is of such a character as to be of the highest interest to a public library:—

"A Collection of some 3000 books and tracts on Economic and Social History, extending over the period from the end of the sixteenth century to date, is offered for sale by private treaty. It includes many works on social and economic history now very rare and difficult to obtain, including first editions of most of the great economic classics; and while it can only give a partial representation of so extensive a literature, it is believed that it would serve as an excellent nucleus for the creation of a large and important social and economic library in a University or other similar public institution. For further particulars application should be made to *Books, 7, Jesus Terrace, Cambridge.*"

RECENT PERIODICALS AND NEW BOOKS

Journal of the Royal Statistical Society.

VOL. XC., Part I. *German Currency; its Collapse and Recovery, 1920–26.* LORD D'ABERNON (Presidential Address). A critical history, with concluding observations on the conditions requisite for recovery from catastrophic positions of currency and exchange. *Inflation and Deflation in the United States and in the United Kingdom, 1919–23.* H. W. MACROSTY. While the policy of the banks and of the Treasury affected prices, this was not the main cause of the fall in prices. The real cause was the "strike of the consumer" against the high cost of living. This deflated prices, and deflation of credit followed. *Precision of Means and Standard Deviations.* E. C. RHODES.

Economica (London School of Economics).

MARCH, 1927. *Technical Influences on Vertical Integration.* F. LAVINGTON. It is argued that the dominant technical influences are those making for simple lateral combination, which is contrasted with *either* vertical *or* lateral "integration." But there are certain influences which modify this tendency, which are exemplified from technical conditions in certain industries. *The Organisation of the Swedish Money Market.* K. KOCK. A concise study of somewhat special conditions, of much comparative value. *Sweating in the Clothing Industry.* S. P. DOBBS.

The Sociological Review.

APRIL, 1927. *A Comparison of Chinese and Western Civilisation.* J. H. BRIDGES. *The Village World; Actual and Possible.* P. GEDDES. *Life in a Highland Glen.* "X." *The Rise of the Danish Peasantry.* P. MANNICHE.

Journal of the Economic Society of South Africa.

JANUARY, 1927. The first issue of this Journal has many well-known contributors. In an article on *The Necessity for Economics* Mr. W. H. Clegg, Governor of the South African Reserve Bank, illustrates his subject by a number of practical problems. Professor Lehfeldt, in discussing *Changes in the National Income of South Africa*, makes some new observations on Pareto's formula, and its accuracy at the lower levels of income. In his paper on *Site value as Basis for Municipal Taxation*, the Director of Census and Statistics considers a number of principles of taxation in their local application. Professor Plant, on *The Customs Tariff as a Means to Revenue and Protection*, is strongly critical of the new South African proposals, in place of which he offers other suggestions for industrial development. There are shorter papers by Professor H. Clay, and Dr. A. J. Bruwer, Chairman of the Board of Trade and Industries.

Review of Economic Statistics (Harvard).

JANUARY, 1927. *Review of the Year* 1926. The indices show the persistence of great business activity in the face of declining commodity prices. *The Money Market in* 1926. W. R. BURGESS. The changes in 1926 were part of a longer movement beginning towards the end of 1924, which has resulted in a substantially higher level of interest rates. The credit expansion of the past two years has been almost wholly outside New York City. *An Index of General Business Conditions*, 1875–1913. W. M. PERSONS. An index for the period 1875–1902 is obtained from statistical series similar to those used for the index of current business conditions, the comparative data being tabulated. For the earlier period, neither the general correspondence of the cyclical movements of the three constituents, nor the systematic lag, is as pronounced as for the later period. *Weekly Fluctuations in Outside Bank Debits.* W. L. CRUM. *Market Value of Industrial Equities.* E. L. SMITH. *Cyclical and Sectional Variations in the Sale of Public Lands*, 1816–60. A. H. COLE. Data are offered which may throw light on the course of American settlement. Movements in the sale of lands usually preceded the movements in general business, as reflected in prices. Up to the Civil War, this statistical series should be taken into account as forecasting the general course of business.

American Economic Review (Harvard).

MARCH, 1927. *Economic Advisory Work for Governments.* E W. KEMMERER. Why do foreign Governments choose American economists as advisers? what is the kind of work? how far is the advice followed? what economic fallacies are most likely to obstruct the work? *The Function of the Entrepreneur.* C. W. TUTTLE. A statement of the position that profit depends on a special function or condition, not on a totality. This condition is the *ownership of opportunity for organisation.* The function is to be separated from that of employer. *Economic Effects of Inheritance Taxes.* G. E. HOOVER. A discussion of the incidence of inheritance taxes on the accumulation of capital, on its distribution, on the scale of production, and on savings. "Most of the arguments thus far used against the inheritance tax are bad ones." *Going Value in Utility Valuation.* M. C. WALTERSDORF. The accounting and legal problem of allowing for development costs or losses, by amortisation from earnings or alteration of the basis of rating, in public utility corporations.

Quarterly Journal of Economics (Harvard).

FEBRUARY, 1927. *Utility Curves, Total Utility, and Consumer's Surplus.* H. E. MILLER. It is argued that Marshall's conception of Consumer's Surplus is fallacious; in respect of the regular consumption of goods total utility is the simple multiple of final utility. The higher intermediate utilities were real only when the corresponding degree of want existed. There may be a consumer's surplus in certain special cases, as when rate of consumption is changing, or when a "bargain utility" is got even at the margin. Further, Marshall's surplus, like any Rent, is not due to the high psychic returns from some units of consumption, but to the bad

terms got from other units; if there were no Diminishing Utility, the surplus would be greater still, so that D. U. really creates a deficit. *What do "Statistical Demand" Curves show?* E. J. WORKING. Do statistical curves correspond to those of economic theory? The former are affected by the "variability" of the supply and demand schedules, in such a way that the fitted statistical curve will conform to the factor which has relatively changed less; and corrections must be applied to reduce the variability of either factor in order to approximate to the curve of that factor alone. If the shifts of demand and supply are correlated, the fitted curves might better be described as lines of regression. Further problems are involved, according as the demand curve is taken to include producers' demand or, apart from this, consumers' or dealers' demand. Finally there is involved the question how far other things are held equal. *Depreciation and Valuation for Rate Control.* J. C. BONBRIGHT. With a brief reply by Professor Allyn Young. *The Copper Mining Industry in the United States, 1845–1925.* F. E. RICHTER *The Influence of the Anglo-French Treaty of Commerce of 1860 on the Development of the Iron Industry in France.* A. L. DRENHAM.

Political Science Quarterly (New York).

MARCH, 1927. *The Scientific Basis of Fascism.* C. GINI. The "law of political cycles," in which Fascism is a stage, can be justified in the light of economic considerations. The process of exercising political activity is a comparatively pleasant one, and tends to run to excess, so that restoration of authority is required. "There can be no doubt that the fascist experiment has had highly satisfactory results in Italy," but under exceptional conditions.

Journal of Political Economy (Chicago).

FEBRUARY, 1927. *Value for Taxation and Rate-making.* G. G. TUNELL. *Higher Commercial Education in Italy.* E. C. LANGOBARDI. *Jurisdictional Disputes.* R. E. MONTGOMERY. *Labor Policy of Oneida Community, Ltd.* E. LOWENTHAL. *Investments and Fire and Marine Insurance.* S. H. NERLOVE.

Wheat Studies of the Food Research Institute (Stanford University, California).

FEBRUARY, 1927. *The McNary-Haugen Plan as applied to Wheat: Operating Problems and Economic Consequences.*

MARCH, 1927. *The McNary-Haugen Plan as applied to Wheat: Limitations imposed by the Present Tariff.* These issues are devoted to exposing the futilities of a Bill which has since been vetoed by the President. The central features of the plan were the operations of a federal board, seeking to maintain domestic prices at enhanced levels behind the tariff wall, to segregate the surplus over domestic requirements and sell it for what it will bring, and to distribute operating costs and losses among the growers by means of an equalisation fee on each bushel sold.

MAY, 1927. *Survey of the Wheat Situation, December 1926 to March 1927.* During these four months international shipments were heavier than in any similar period of recent years. Large crops

became available in Australia and Argentina, and exports were stimulated by a decline in ocean freight rates. European demand showed continuous strength without, however, any sign of an accumulation of stocks. Wheat prices moved within a narrow range. Early indications point to increases in harvested acreage and good crops in 1927, except in India and North Africa.

Revue d'Économie Politique (Paris).

NOVEMBER-DECEMBER, 1926. *Le rapport du Comité des experts et la revalorisation du franc.* F. SAUVAIRE-JOURDON. *La propriété foncière dans les colonies sionistes.* C. GIDE. *Le mouvement ouvrier dans les mines de houille aux États-Unis.* A PHILIPP. *Stabilisation et crédit au commerce exterieur.* B. ELIACHEFF. *Le marché des bons du Trésor en Grande-Bretagne.* R. CLAUOUÉ.

JANUARY-FEBRUARY, 1927. *La dépréciation et la stabilisation du franc-belge.* B.-S. CHLEPNER. *Étude critique de statistique du chômage en France.* H. FUSS. *Le mode de répartition des dettes autrichiennes et hongroises.* A.-N. SACK. *L'Angleterre après la crise minière et la querelle des banquiers.* L. BAUDIN. *De la distribution du crédit par les banques américaines.* R. CLAUOUÉ.

Journal des Économistes (Paris).

FEBRUARY, 1927. *Le Nouveau Régime des Chemins de fer de l'État en Belgique.* G. DE NOUVION.

MARCH, 1927. *La Conférence internationale des cartels.* YVES-GUYOT. This article is noticed on another page. *La Question chinoise et l'Intérêt commun.* X.X.

APRIL, 1927. *Les États-Unis d'aujourd'hui et les Vérités économiques en action.* YVES-GUYOT. *La Conférence économique internationale.* E. HANTOS. A hopeful view of the possibilities of the Conference, emphasising especially the part to be played in future by international cartels, the control and, if public interests required, dissolution of which would be in the discretion of an international tribunal, under the authority of the League of Nations. *La Renaissance industrielle de Reims.* G. DE NOUVION. *L'Individualisme politique et économique.* N. MONDET.

La Musée Social (Paris).

JANUARY, 1927. *Peut-on se soustraire à la dépréciation de la monnaie.* M. HAMELIN. An examination of measures employed to adapt contracts to value of money.

FEBRUARY, 1927. *Les Assurances sociales du territoire de la Sarre.* M. G. MOULIN.

MARCH, 1927. *Quelques aspects de la Révolution monétaire dans l'Europe contemporaine.* M. P. LYAUTEY. Summary of an address to the Conference of December 1926, with the comments of M. François-Marsal, formerly Minister of Finance.

Revue de L'Institut de Sociologie (Brussels).

JANUARY-MARCH, 1927. *Les causes de l'exogamie et de l'endogamie.* P. DESCAMPS. *La dynamique sociale et l'histoire.* W. M. KAZLOWSKI.

Schmollers Jahrbuch.

51 Jahrgang, 1 Heft. *Adam Smith, ein Jubiläum.* W. LOTZ. An address given to the Economic Society of Munich. *Hermann Heinrich Gossen.* O. WEINBERGER. An account of the contents and also of the fortunes of Gossen's "Laws of Human intercourse," 1854, a rediscovered source of the doctrine of final utility. "*Nicht vergleichbare*" *statistiche Zahlen.* F. ZIZEK. *Der Bauer im Zeitalter des Kapitalismus.* F. BECKMANN. *Geburtenrückgang und Sexual Moral.* J. WOLF. An address to the "Sex Congress," 1926. *Zur Theorie und Systematik der Genossenschaften.* R. LIEFMANN. "Like the Trade Unions, the co-operative societies have been hailed as the beginning of a new economic system. Alongside of State Socialism and the Trades Union or Gild Socialism, Co-operative Socialism has played its part. Its claims are somewhat exaggerated."

Archiv für Sozialwissenschaft und Sozialpolitik (Tübingen).

FEBRUARY, 1927. *Die sozialen Klassen im ethnisch-homogenen Milieu.* J. SCHUMPETER. The discussion is limited to classes ethnically homogeneous. Classes are given social facts, not constituted by heredity, though coloured by it. Families rise or fall out of classes constantly, according to the success or failure of the members in mastering the chief work that is the function of the class. Success is due to unusual power of will, character, and talent, aided by tradition, inheritance, and luck. Entrance thus gained into a class may be retained by prestige. The work is done by individuals, the effect accrues to the family. *Die Konservative Denken.* K. MANNHEIM. On the philosophical theory of political parties in Germany. *Zwei Beiträge zur Theorie der Umlaufs-geschwindigkeit des Geldes.* A. SOKOLOFF. The first of two essays on velocity of circulation. *Der Allgemeine Deutsche Arbeiterverein und die Krisis* 1866. G. MAYER. A description of the position in April 1866, on Bismarck's proposal of an extension of the suffrage, unaccompanied by the ballot. *Die Schwanger-schafts unterbrechung und das Strafgesetz.* H. FURTH. *Memorials of Alfred Marshall.* A. SALZ. A warm and discriminating tribute both to Marshall's personal goodness and to his economic leadership.

Zeitschrift für die gesamte Staatswissenschaft (Tübingen).

82 Band, 2 Heft. *Staat and Gesellschaft.* G. KESSLER. *Gesellschaftliche, wirtschaftliche und technische Entwicklung in ihrem inneren Zusammenhange.* G. JAHN. *Preislehre und Konjunkturforschung.* O. VON ZWIEDINECK-SÜDENHORST. *Wege zur Gewinnsteigerung.* F. FINDEISEN. *Arbeiterseele und Wirtschaftsgesetzlichkeit.* M. MUSS. *Die Geschäfts-und Familienpolitik Jacob Fugger des Reichen.* J. STRIEDER. *Die Finanzen des englischen Absolutismus.* G. BRODNITZ. *Zur Geschichte der Entwicklung der Personal-besteuerung in Preussen.* W. GERLOFF. *Der Nachrichtendienst des Sächsischen Hofes vom* 15 *bis* 18 *Jahrhundert.* J. KLEINPAUL. [Festgabe für Karl Bucher zu sienem 80 Geburtstag am 16 Februar 1927.]

Jahrbücher für Nationalökonomie und Statistik (Jena).

126 Band, 1 Heft. *Banknotenpolitik und Konjunktur und Krise.* W. TAUCHER. *Die Krisis im britischen Kohlenbergbau.* F. HEYER.

126 Band, 2 Heft. *Produktivität und Soziabilität. Versuch einer sozialen Begründung des Begriffs der marktwirtschaftlichen Ergiebigkeit.* H. HONEGGER. *Das Gewerbe im alten Griechenland und das Kapitalistische Gewerbe.* E. W. REICHARDT.

126 Band. 3 Heft. (MARCH, 1927). *Nationalökonomie und phänomenologische Philosophie.* J. BACK. *Das Gewerbe im alten Griechenland und das kapitalistische Gewerbe* (Schluss). E. W. REICHARDT. *Ueber die Theorie und Statistik der Konzentration.* W. LEONTIEF.

Vierteljahrshefte zur Konjunkturforschung (Berlin).

1 Jahrgang. Heft 4. The depression of 1926 has passed its worst point. In Germany, the rising *conjunktur* of the end of the year was not entirely due to foreign influences, but had its roots in the national economy. There is a general but slow revival. It is not certain how far this is "structural" rather than "conjunctural."

Sonderheft 1. *Zur Analyse des Eisenmarkts.* H. J. SCHNEIDER. An exhaustive study of the history of this market, in relation to both structure and conjuncture. Part I deals with the pre-war period since 1879, Part II with the period 1919–26. The last section of Part II, on the structure of the German iron market, is of special interest at the present time. Conditions of the world-market are examined for both periods. The statistical tables will form an important reference for students.

1 Jahrgang, Erganzungsheft 4. *Ein Rechenfehler als Konjunkturursache.* F. SCHMIDT. *Geldmarktlage und Reichsbankpolitik.* W. PRIOR. *Zur Frage des Volkswirthschaftlichen Erkenntnisinhalts der Bankbilanzziffern.* A. HAHN.

Weltwirtschaftliches Archiv (Jena).

APRIL, 1927. 25 Band, 2 Heft. *Die Weltwirtschaftskonferenz.* B HARRUS. *Moderner Absolutismus.* E. VON BECKERATH. *Internationale Kartelle.* R. LIEFMANN. This article is noticed on another page. *Die Wirtschaftlichen Grundlagen Polens und die polnischen Aussenhandelsbeziehungen.* P. ROTH. *Hochkapitalismus.* E. SALIN. Friedrich List und Adam Müller. A. SOMMER. *Zur Möglichkeit der Konjunkturtheorie.* F. OPPENHEIMER.

Scientia (Milan).

MARCH, 1927. *The Political Importance of Working-class Education.* H. S. FURNISS. There has been confusion between two ideals of education—whether it teaches people to think or to believe. This distinction corresponds to two lines of recent development in England, represented by distinct institutions, which may be called working-class education, and independent working-class education. They hold in common, however, certain fundamental principles, such as democratic control of the schemes, choice by students of their own class subjects and tutors, and the use of the knowledge gained in the service of the Labour movement. On the last point there has been a difference of interpretation, which has led to controversy and friction, and which is explained in detail by the late Principal of Ruskin College.

Giornale Degli Economisti (Milan).

JANUARY, 1927. *Il capitalismo delle classi operaie.* V. PORRI. A comparison of working-class savings in Britain, Italy and the United States (on the basis of articles in the *Economist*, 1925, and Carver, *The Present Economic Revolution in the U.S.*), showing decreased alcoholic consumption (Italy and Britain) and positive returns in each country for savings and assurance institutions. The brief sketch of the Bowley-Hogg investigations into Poverty will be useful for Italian readers, but the Italian statistics are too incomplete to be of value. *Il porto di Genova nel 1925*—a detailed review of the economy of the Port of Genoa, which would be still more useful if accompanied by similar comparisons for Trieste.

FEBRUARY, 1927. *La nozione economica del rischio.* F. CHESSA. *La stabilizzazione monetaria nel Belgio.* E. FOSSATI

MARCH, 1927. *La crisi e le teorie economiche.* G. DEL VECCHIO. *La deflazione nei riguardi del mezzogiorno.* G. C. DONVITO.

Metron (Padua).

MARCH, 1927. *On the Size and Constitution of the "Private Family" in England and Wales.* J. W. NIXON.

(A table is compiled from the Census on a special method, and a classification given by industries, and by groups varying from "high" to "very low" in respect to size of family under sixteen years.)

La Riforma Sociale (Turin).

JANUARY-FEBRUARY, 1927. *Per la ricostruzione dei bilanci delle società anonime.* An article by Professor Einaudi, arguing for revaluation of items entering into the balance-sheet of a joint-stock company at various dates under a fluctuating exchange-rate—a useful article for accountants and the (Italian) revenue authorities. In *L'organizzazione sindicale mondiale*, Arturo Salucci reviews the numerical world strength of organised labour: his figures for the Italian Syndical Corporations of Labour are useful. The development of municipal finance in a typical Italian city is dealt with in F. A. Repaci's *I dazi di consumo della città di Torino nell' ultimo secolo*—an admirable study by an authority on Italian internal finance, and interesting and enlightening for students of municipal taxation and its effects on commodity prices within prescribed areas. In the same number Professor Einaudi reviews, very ably and to the length of an article, the Report of the Indian Currency Commission (1926).

Annali di Economia (Genoa).

Vol. III. (1926-7). *La crise dell' economia britannica.* A. LORIA.
Il problema demografico inglese. C. GINI.
Il mercato monetario. G. DEL VECCHIO.
Le Finanze inglese. M. FANNO.
La controversia doganale e la preferenza imperiale in Inghilterra. G. PRATO.
La crise dell' industria carboniera britannica. G. MORTARA.
La crise dell' industria coloniera britannica. G. MORTARA.

Indian Journal of Economics (Allahabad).

JULY, 1926. *Income Tax in India.* G. CHAUD. The Act of 1922 should be given a longer trial. *A Review of Recent Literature on the Problem of Population.* B. N. KAREL. *An Early Proposal for a Federal System of Finance in India.* P. J. THOMAS. A study of the scheme of decentralisation associated with the name of Massey, and first worked out in 1867 by Strachey. *The Tobacco Trade of the Madras Presidency.* N. G. RANGA.

Revista Nacional de Economica (Madrid).

JANUARY–FEBRUARY, 1927. *Arbitrios del vecino de Tarancón Francisco de la Fuente.* C. ESPEJO. *El problema económico de las penas de privación de libertad.* E. C. CALÓN. *Liquidación de los Presupuestos generales del Estado.* F. A. Y BARTRINA. *El impuesto sobre rentas y ganancias.* L. V. PARET. *El comercio de telas de Laval en España y en la América española.* H. SÉE.

International Labour Review (Geneva).

FEBRUARY, 1927. *The New German Labour Protection Bill.* J. FEIG. *Collective Bargaining in the U.S.A.* L. D. CLARK. *The Protection of Workers against Unfair Dismissal in Continental Legislation.* E. MOLITOR.

MARCH, 1927. *The Labour Movement in China.* TA CHEN. "Certain aspects of the Chinese labour movement are still too foreign in spirit. Trade Union methods and practices of Western countries should be so modified as to suit economic and social conditions in China." *The Austrian Works Councils Act in Practice,* I. E. ADLER. The questions mainly at issue are the Council's right to oppose the dismissal of a worker, and the immunity of the members of the Council.

Skandinaviska Kreditaktiebolaget (Stockholm).

APRIL, 1927. *The Dislocation of Prices and its Consequences.* G. CASSEL. Lack of purchasing power is not an explanation; there is no abstract purchasing power apart from production itself. It is this fallacy which leads to the theory of restriction. The derangement is due to different rates of change of prices, especially as between raw materials and finished products. *The (Swedish) Economic Situation during the first Quarter of* 1927.

Economic Review (Kyoto).

DECEMBER, 1926. *Double Taxation, with special Reference to its International Aspects.* M. KAMBE. A detailed study and classification, of the variations in form and definition of double taxation. Various methods of interstate agreement are proposed in order to eliminate double taxation in its international aspects. Attention is also drawn to cases of double taxation in respect of indirect taxes. *The Agrarian Problem in the Tokugawa Regime.* E. HONJO. *Seasonal Fluctuation of our National Finance.* S. SHIOMI. An investigation showing the seasonal nature of revenue as affected by some special national conditions, and the consequent place of Treasury Bills in the national finance. *Some Characteristics of the Chinese National Economy.* S. SAKUDA. *Agricultural Problems*

and their solution in Japan. S. KAWADA. It is argued that the agricultural problem in Japan is similar to that of other progressive nations, and can only be solved by equalisation of industrial conditions and cultural opportunities between city and country.

Chinese Economic Journal (Pekin).

JANUARY, 1927. This is the first number of a new Journal, which incorporates the Chinese Economic Monthly. Chief importance belongs to an article by Chang-heng Chen on *Changes in the Growth of China's Population in the last* 182 *Years*, which provides important statistical data, and shows, for these periods, the slowing of the rate of growth. Other brief studies of Chinese farming and communications are of great interest to Westerners, and we welcome this new venture of the Chinese Bureau of Economic Information.

Ekonomisk Tidskrift (Uppsala).

1926, Nos. 7-8. *The Future of the Gold Standard.* DAVID DAVIDSON. The restoration of the pre-war gold standard assumes the return of the old central bank policy, which was rather peculiar. Its basis was that the convertibility of the notes should be guaranteed. Such a policy could not lead to stable price conditions. Already the Bullion Committee of 1810, under the influence of Thornton, recommended a discount policy aiming at an *early* reaction upon credit to prevent variations in the value of money. Peel forgot that when he drafted the Bank Act, and unfortunately believed action at a later stage of development to be sufficient, *i.e.* when the amount of notes had already begun to rise. The smooth working of the gold standard assumed that all countries tried to restrict gold movements and thus prevented individual inflation or deflation. (If one country deflated considerably, the others would lose gold and be forced to an undesirable credit restriction.) When this condition was no longer fulfilled, the international gold standard must break down. This happened in 1914. There was nothing in the system to prevent a slow all-round inflation or deflation, but violent movements of the price levels were impossible. A certain tranquillity, not immobility, was reached. After 1914 the gold movements became enormous. New criteria had to be found. The Federal Reserve Board after the war aims at maintaining normal conditions of production and seems to disregard gold movements. Small variations in the discount rate are made effective through warnings of other kinds. Will this continue, when Europe as a whole has returned to gold? It seems probable. It is, however, necessary that the U.S. keep their "superfluous" gold, for otherwise they will not be in a position to disregard gold movement. Other countries will have a sort of gold exchange standard, and their monetary value will be affected by gold movements, but not the money value in the U.S. If some countries do not follow, *e.g.* a deflation in the U.S., their gold will begin to flow into countries which keep their currency at par with dollars. To small countries this might be disturbing. Therefore the Swedish embargo on gold imports (for everybody but the central bank) is well justified. *The Government Proposals about the Social Insurance of Accidents and Illness.* P. J. G. LAURIN. A paper read to the Economic Society, Stockholm, followed by discussion.

1926, Nos. 9-10. *The Industrial Development and the Eight-Hours Day.* GUSTAV AKERMAN. This is the first part of a long essay, built on the investigation made by the Social Board into the situation in 1924. One of the problems discussed is how to measure the increase in the worker's efficiency that is caused by the shortening of the working day. Distinction should be made between four types of technical changes: increase of machinery, new inventions, increased "automatism" without new inventions, and increased speed in the machinery. Only the latter is certainly a sign of greater intensity of work. The result of the investigation is that the intensity had been increased by 5 per cent. only since 1918, whereas the day had been shortened by 15 per cent. Compared to 1913 the worker gave, however not 5 but 8·9 per cent. more per hour. The volume of production in manufacturing industries in 1924 exceeded that of 1913 by 9 per cent. The index figure for the production per labourer was 104 when reckoned per year, but 130 when reckoned per hour. Thus, the corresponding figure per "prestation" on the part of the manual worker was 120 (130 : 108·9). This increase in productivity was due to an increase in the use of machinery by 57 per cent. and an increase in the number of non-manual workers by 25 per cent. Furthermore, new inventions have played a certain rôle. Without the eight-hour day production to-day would probably be 10 per cent. higher than it is. *The Taxation of Joint Stock Companies.* ERIK LINDAHL. A paper read to the Economic Society, Stockholm, followed by discussion.

1926, Nos. 11-12. *The Economic History of Sweden under the Influence of the World War.* DAVID DAVIDSON. A review of the work that has been edited by Professor Heckscher in the Carnegie Endowment Series. *The Velocity of our Bank-notes during the World War.* SVEN BRISMAN. In his analysis of monetary conditions Heckscher found a notable decrease in the velocity of circulation of the bank-notes during the last two years of the war. This is contrary to what one would expect, as the velocity usually rises during times of inflation. Brisman tries to demonstrate that although the volume of production was reduced, yet the volume of circulation on the commodity side was increased, every commodity passing between a greater number of hands than before the war. Therefore the velocity of the bank-notes was in reality greater than in 1913. *The Conditions of Competition in the Sugar Industry.* DAVID DAVIDSON. A thorough analysis, chiefly on a statistical basis. *The Roads and the Motor Traffic.* C. MEURLING. A paper read to the Economic Society, Stockholm, followed by discussion.

NEW BOOKS

British.

AUSTIN (W. F.) and LLOYD (B.). Capital for Labour. Unwin. 1927. Pp. 142. 3*s*. 6*d*.

BARTON (F. R.). Nickel Coinage. Mond Nickel Company, Ltd. Pp. 50.

BENN (E. J. P.). The Letters of an Individualist to *The Times*. 1921-6. Benn. 1927. Pp. 143. 3*s*. 6*d*.

BOOTHBY (R.) and others. Industry and the State: a Conservative View. Macmillan. 1927. Pp. 269. 6*s*.

BOWLEY (A. L.) and STAMP (J. C.). The National Income, 1924. Oxford University Press. 1927. Pp. 59. 3*s*. 6*d*.

CROFTON (R. H.). Adventures in Administration. Leonard Parsons. 1927. Pp. 311. 7*s*. 6*d*.

DAMPIER-WHETHAM (C.). Politics and the Land. Cambridge University Press. 1927. Pp. 215. 6*s*.

DEMENT (V. A.) and others. Coal: a challenge to the national conscience. Hogarth Press. 1927. Pp. 84. 2*s*. 6*d*.

DOUGLAS (D. C.). The Social Structure of Mediæval East Anglia. Oxford University Press. 1927. Pp. 288. 18*s*.

FITZGERALD (P.). Industrial Combination in England. Pitman. 1927. Pp. 230. 10*s*. 6*d*.

FLORENCE (P. S.). Economics and Human Behaviour. Kegan Paul. 1927. Pp. 117. 2*s*. 6*d*.

GOODHART (A. L.). The Legality of the General Strike in England. Cambridge: Heffer. 1927. Pp. 20. 1*s*.

GOURJU (P. E.) and PARKINSON (H.). Home, Colonial, and Foreign Borrowing. General Press. 1927. Pp. 31. 1*s*.

GRIFFITH (E. S.). The Modern Development of City Government in the United Kingdom and the United States. 2 vols. Oxford University Press. 1927. Pp. 715.

HELFFERICH (K.). Money. Translated by L. INFIELD. Preface by T. E. GREGORY. Benn. 1927. 2 vols. Pp. 660. 52*s*. 6*d*.

HILL (N.) and others. War and Insurance. (Economic and Social History of the World War, New Series.) Oxford University Press. 1927. Pp. 283. 10*s*. 6*d*.

Individualist Bookshop, Ltd. The Philosophy of Individualism. A bibliography, with an Introductory Essay on Individualism. Pp. 95. 1*s*.

JONES (J. H.). The Federal Reserve System. Gee. 1927. Pp. 53. 2*s*. 6*d*.

KING (F. H.). Farmers of Forty Centuries; or, Permanent Agriculture in China, Korea and Japan. Cape. 1927. Pp. 379. 12*s*. 6*d*.

LODGE (E. C.). The Account Book of a Kentish Estate, 1616–1704. (British Academy, records of social and economic history.) Milford. 1927. Pp. 532. 31*s*. 6*d*.

MAULDON (F. R. E.). A Study in Social Economics. Melbourne: Robertson and Mullens. 1927. Pp. 201. 12*s*. 6*d*.

NOGARO (B.). Modern Monetary Systems. King. 1927. Pp. 236. 15*s*.

OLIVIER (LORD). The Anatomy of African Misery. Hogarth Press. 1927. Pp. 234. 6*s*.

PAISH (G.). The Road to Prosperity. Foreword by J. C. STAMP. Benn. 1927. Pp. 154. 6*s*.

PEDDIE (J. T.). The Cause of Economic and Social Unrest. Longmans. 1927. Pp. 76. 2*s.*

PIGOU (A. C.). Industrial Fluctuations. Macmillan. 1927. Pp. 397. 25*s.*

RICHARDSON (J. H.). A Study of the Minimum Wage. Allen and Unwin. 1927. Pp. 198. 7*s.* 6*d.*

SINHA (H.). Early European Banking in India. Macmillan. 1927. Pp. 274. 12*s.* 6*d.*

SINHA (J. C.). Economic Annals of Bengal. Macmillan. 1927. Pp. 301. 12*s.* 6*d.*

SPAULDING (H. B.). The Income Tax in Great Britain and the United States. P. S. King. 1927. Pp. 320. 12*s.*

STAMP (J. C.). The Statistical Verification of Social and Economic Theory. Humphrey Milford. 1927. Pp. 33. 1*s.*

[The Sidney Ball Lecture at Oxford, 1926.]

SUTCLIFFE (J. T.). The National Dividend. Preface by Prof. BOWLEY. Melbourne University Press. 1927. Pp. 70. 3*s.* 6*d.*

THOMAS (E.). The Economics of Small Holdings. Cambridge University Press. 1927. Pp. 132. 4*s.* 6*d.*

VAKIL (C. N.) and MURANJAN (S. K.). Currency and Prices in India. King. 1927. Pp. 549. 18*s.*

WEBB (S. and B.). English Poor Law History. Longmans. 1927. Pp. 447. 21*s.*

WELLS (H. G.). Democracy under Revision. Hogarth Press. 1927. Pp. 47. 2*s.*

WOOD (L. S.) and WILMORE (A.). The Romance of the Cotton Industry in England. Oxford University Press. 1927. Pp. 288.

American.

BIZZELL (W. B.). The Green Rising: an Historical Survey of Agrarianism. Macmillan. 1927. Pp. 269. 8*s.* 6*d.*

BOGART (E. L.) and LONDON (C. E.). Modern Industry. Longmans. 1927. Pp. 593. 16*s.*

BUCK (A. E.). Municipal Finance. Macmillan. 1927. Pp. 562. 17*s.*

DAVIES (A. E.). Investments Abroad. New York: A. W. Shaw Company. 1927. Pp. 194.

FAY (C. R.). Elements of Economics. Macmillan. 1926. Pp. 631. 7*s.*

FRANK (T.). Economic History of Rome. Baltimore: Johns Hopkins Press. 1927. Pp. 519. $3.

[A revised and enlarged edition.]

HARDY (C. O.) and COX (G. V.). Forecasting Business Conditions. Macmillan. 1927. Pp. 434. 12*s.* 6*d.*

JEROME (H.). Migration and Business Cycles. Foreword by WESLEY C. MITCHELL. National Bureau of Economic Research. 1926. Publication No. 9. Pp. 256.

McGuire (C. E.). Italy's International Economic Position. (Institute of Economic Series.) London: Allen and Unwin. 1927. Pp. 588. 12*s.*

Patterson (S. H.) and Scholz (K. W. H.). Economic Problems of Modern Life. McGraw-Hill Publishing Co. 1927. Pp. 613.

Patton (F. L.). Diminishing Returns in Agriculture. New York: Columbia University Press. Pp. 100. $1.50.

Stewart (B. M.). Canadian Labour Laws and the Treaty. New York: Columbia University Press. 1926. Pp. 501. $6.

Walsh (C. M.). The Four Kinds of Economic Value. Harvard University Press. 1926. (London: Milford.) Pp. 138. 8*s.* 6*d.*

French.

Bousquet (G. H.). La restauration monétaire et financière de l'Autriche. Rivière. 1927. Pp. 158. 8 *fr.*

Bousquet (G. H.). Essai sur l'Évolution de la Pensée Économique. Giard. 1927. Pp. 314. (Bibliothèque internationale.)

de Leener (G.). Les chemins de fer en Belgique. Brussels: Lamertin. 1927. Pp. 250.

Franck (L.). La stabilisation monétaire en Belgique. Payot. 1927. Pp. 174. 15 *fr.*

Lazard (J. P.). Politique et théories monétaires Anglaises d'Après-guerre. Préface de Ch. Rist. Sirey. 1927. Pp. 125. 12 *fr.*

Sée (H.). La vie économique de la France, 1815–48. Alcan. 1927. Pp. 189. 20 *fr.*

Truchy (H.). Cours d'Économie politique. Tome 2me. Deuxième édition. Sirey. 1927. Pp. 490.

German.

Baasch (E.). Hollandische Wirtschaftsgeschichte. Jena: Fischer. 1927. Pp. 632. 30 *m.*

Deutschen Gesellschaft für Soziologie. Verhandlungen des Fünften Deutschen Soziologentages 26–29 September 1926 in Wien. Tübingen: Mohr. 1927. Pp. 227. 8 *m.*

Földes (B.). Volkswirtschaftliche und sozialpolitische Untersuchungen. Jena: Fischer. 1927. Pp. 276. 12 *m.*

Harms (B.). Vom Wirtschaftskrieg zur Weltwirtschaftskonferenz. Jena: Fischer. 1927. Pp. 359. 15 *m.*

Jèze (G.). Allgemeine Theorie des Budgets. Tübingen: Mohr. 1927. Pp. 337. 14 *m.*

Mannstaedt (H.). Ein kritischer Beitrag zur Theorie des Bankkredites. Jena: Fischer. 1927. Pp. 36. 1.80 *m.*

Menger (A.). Das bürgerliche Recht und die bisitzlosen Volksklassen. (Photomechanisch gedruckte Auflage.) Tübingen: Laupp. 1927. Pp. 214. 5 *m.*

MÜLLER (J.). Der mitteldeutsche Industriebezirk. Jena : Fischer. 1927. Pp. 86. 4 *m.*

PASSOW (R.). Kapitalismus. Jena : Fischer. 1927. Pp. 136. 7 *m.*

SOMBART (W.). Das Wirtschaftsleben im Zeitalter des Hochkapitalismus. Zweiter Halbband. Munich and Leipzig : Duncker and Humblot. 1927. 14.50 *m.*

SOMMER (A.). Friedrich Lists' System der politischen Ökonomie. Jena : Fischer. 1927. Pp. 242. 8 *m.*

SURÁNYI-UNGER (T.). Die Entwicklung der theoretischen Volkswirtschaftslehre im ersten Viertel des 20 Jahrhunderts. Jena : Fischer. 1927. Pp. 320. 14 *m.*

WOYTINSKY (W.). Die Welt in Zahlen. Fünftes Buch. Handel und Verkehr. Berlin : Mosse. 1927. Pp. 376.

WEDDEJEN (W.). Theorie des Ertrages. Jena : Fischer. 1927. Pp. 240. 12 *m.*

Italian.

FOÀ (B.). Influenze monetarie sulla distribuzione delle richezze. La Inflazione. Albrighi : Legati & Co. 1927. Pp. 146. 15 *lire.*

GINA (S.). Scienza economica e assicurazioni sociali. Con prefazione de Achille Loria. Torino : Bocca.

MICHELO (R.). Corso di sociologica politica. Milan : Istituto Editoriale Scientifica.

NOARO (G. C.). Nuovo manuale completo di Legislazione Sociale. Rome : Colombo.

Swedish.

ANDERSSON (GUNNAR). Sveriges allmänna skogar. (The Public Forests in Sweden.) Stockholm : Tiden. 1926. Pp. 268.

[An investigation into the economic conditions in the forest industry, owned by the State and certain communities. The author is professor of economic geography at the Business School and a member of the Nationalisation Commission.]

BODMAN (G.). Göteborgs industrihistoria i siffror, 1747–1920. (The History of the Manufacturing Industries in Gothenbourg, 1747–1920.) Göteborg. 1926. Pp. 260.

CARLGREN (W.). De norrländska skogsindustrierna intill 1800-talets mitt. (The Wood Industries in Northern Sweden up to the Middle of the Nineteenth Century.) Uppsala : Almquist & Wicksell. 1926. Pp. 153.

CASSEL (GUSTAV). Aktuella handelspolitiska problem. (Trade and Tariff Problems of To-Day.) Stockholm. 1926. Pp. 27.

HECKSCHER (ELI F.). Bidrag till Sveriges ekonomiska och sociala historia under och efter världskriget. (Contributions to the Economic and Social History of Sweden during and after the World War.) Stockholm : Norstedt. 1926. 2 vols. Pp. 365 + 304.

KARLEBY (NILS). Socialismen inför verkligheten. (Socialism and Reality.) Stockholm: Tiden. 1926. Pp. 280.

[The author made this book ready for publication just before his death in the beginning of 1926, at the age of only thirty-four years. He was secretary to the Nationalisation Commission, and, although he had only attended the lower public schools, he was long before his death recognised as one of the best among younger Swedish economists. The tendency of the book is critical towards the orthodox Socialist doctrine expounded by German Socialists like Kautsky and others. The author tries to demonstrate that Swedish Socialism, although entirely Marxian in its general outlook, yet offers significant differences from continental and English Socialist principles.]

LANTBRUKET I NORDEN UNDER SENASTE HALVSEKLET. (Agriculture in Denmark, Finland, Norway and Sweden during the last half-century.) Stockholm. 1926. Pp. 624.

[A review of the development by four of the most well-known experts in the Nordic countries.]

WOLONTIS (JOSEF). Sädesslagen i världens hushållning. (Wheat, Rye, Barley and Oats in the World Economy.) Stockholm: Tiden. 1926. Pp. 184.

THE ECONOMIC JOURNAL

SEPTEMBER, 1927

WAGE POLICY AND UNEMPLOYMENT

§ 1. Before the Great War there can be little doubt that wage-rates in Great Britain were adjusted in a broad way to the conditions of demand and supply. Of course the adjustment was not perfect, particularly in bad times. But it would have been generally agreed among economists that nearly the whole of the unemployment found among willing, able-bodied workpeople was due in one way or another to industrial fluctuations—general fluctuations, to which changes in wage-rates only responded slowly, and relative fluctuations as between different industries and different places, which necessitated a certain amount of lost time to people in passage from one job to another. It was nowhere suggested that the general body of wage-rates had been forced up too high relatively to the openings for employment, in such wise that, even had no industrial fluctuations taken place, a substantial number of healthy persons seeking employment must have been always unable to find it. In the post-war period, however, there is strong reason to believe that an important change has taken place in this respect; that, partly through direct State action, and partly through the added strength given to workpeople's organisations engaged in wage bargaining by the development of unemployment insurance, wage-rates have, over a wide area, been set at a level which is too high in the above sense; and that the very large percentage of unemployment which has prevailed during the whole of the last six years is due in considerable measure to this new factor in our economic life.

§ 2. The chief grounds for this view may be summarised as follows. Over the average of the six years beginning with 1921 the percentage of unemployment, as calculated from the Trade Union returns, fell below 10 per cent. in only one year (*i.e.* 1924 with a rate of 8·1 per cent.), and, omitting 1926 on account of the coal strike, averaged 12 per cent. During the thirty years before the war an annual figure of 10 per cent. was only reached once

(1886), and, apart from that, the highest figure was 7·8 (1908). The post-war period has, in fact, had an unemployment figure more than twice as high as pre-war experience would have led us to expect; *some* new factor has been present which has created an *extra* unemployment percentage in the neighbourhood of 8 per cent. No doubt a part of this extra unemployment is due to the abnormal growth of the metal industries during the war, and to the fact that the distribution of workpeople between different occupations has not even yet been adjusted to peace-time conditions. Had this been a dominant factor, however, we should have expected to find a marked shortage of labour in important groups of industries to balance the excess in engineering, ship-building and so on; and of such marked shortage there is no sign. We are not, therefore, entitled to presume that, *in the absence of any other change*, a mere shifting of workpeople away from the war-swollen industries would have enabled any large number of them to find work. A factor other than ill-adjusted distribution of labour must, it would seem, have been at work. In searching for this factor, we learn that, on a rough average, weekly rates of real wages have been maintained in the post-war period at, or it may be, slightly above the 1914 level, in spite of a reduction of nearly one-tenth in the length of the working week; while for unskilled labour weekly rates have definitely improved. In view of the disturbing and disorganising effect of the war this is a remarkable fact. Statistics of production are notoriously defective. But Sir Josiah Stamp and Dr. Bowley have recently carried out a comparison between our national home-produced income in 1924 and 1911. They conclude: "The real home-produced income per head (when duplication is eliminated) was very nearly the same in 1911 and 1924; it is improbable that it was any greater in the latter year, and it may have been 4 per cent. less." [1] In these conditions we should have expected real weekly wages to fall nearly in proportion to the change in the hours of labour. The fact that they have not done so might be expected *a priori* to inhibit the working population from securing full employment. In a matter of this kind it is impossible to demonstrate the existence of a cause–effect relation. On a broad view of the facts, however, when all allowance has been made for the temporary shifting of labour due to post-war readjustment and for the effect of the great 1921 coal strike, there remains, I suggest, at least 5 per cent. of extra unemployment which it is reasonable to attribute to the maintenance of rates of real wages

[1] *The National Income*, 1924, p. 56.

above the level that would establish equilibrium between the demand for and the supply of labour.[1]

§ 3. A detailed study of the statistical relation between real wage-rates and unemployment during the last eight years appears at first sight to afford a very solid support for this view. For a considerable period before the war there was a distinct negative correlation between rates of real wages and quantity of unemployment: on the whole rates of real wages were higher when employment was good, lower when it was bad.[2] Since the war, however, there has been a strong *positive* correlation between rates of real wages and unemployment. Professor Rueff has calculated quarterly indices of real wages by dividing Bowley's index-number of money wages by the Board of Trade index-number of wholesale prices (each being put at 100 for 1913), and has compared the resultant figures with the Trade Union percentage of unemployment per quarter over the period 1919–25.[3] As the *Statist* writes: "It will be seen from the graphic representation of these data that an extraordinarily close correspondence between changes in the level of real wages and changes in the unemployment series exists. The principal increase in percentages of unemployed took place during the second half of 1920 and the first half of 1921. This was the period when wages, expressed in terms, not of sterling, but of purchasing power, were increasing most rapidly. The subsequent trends of the two curves show almost complete similarity. When prices fall more rapidly than money wages [*i.e.* when real wages rise], unemployment increases. When money wages tend to fall relatively to price movements [*i.e.* when real wages fall], the unemployment curve shows a corresponding fall."[4] The coefficient of correlation between the two series has been computed by Sir Josiah Stamp at the extremely high figure + ·95 (complete direct correlation being statistically known as + 1·0).[5] To calculate real wage-rates, as Professor Rueff has done, by dividing the index of money wages by the index of wholesale prices, is, indeed, an unsatisfactory proceeding. I have, therefore, obtained a real

[1] What is said in the text must not, of course, be taken to imply that rea wages in *all* industries are "too high" to admit of a general equilibrium. If the rates were lowered in certain sheltered industries to the level now prevailing in certain unsheltered ones, it might well happen that the sheltered industries would absorb, not only their own unemployed, but—after a transitional adjustment—the unemployed of the unsheltered industries also.

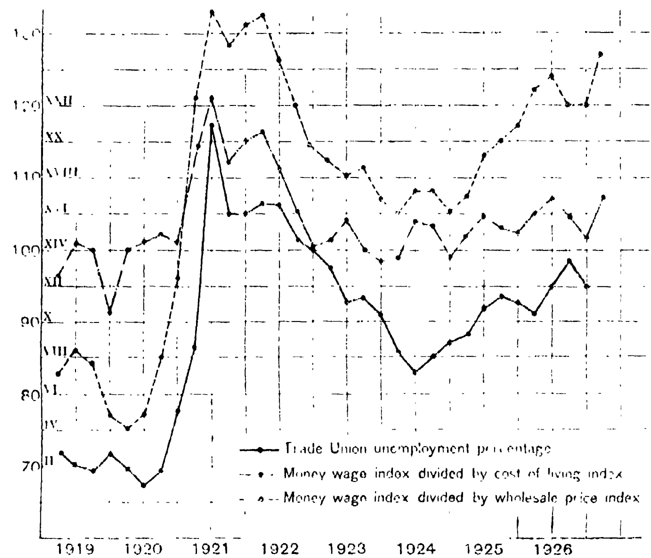
[2] Cf. my *Industrial Fluctuations*, p. 218 and Chart.

[3] *Revue politique et parlementaire*, December 1925, pp. 425 *et seq.*

[4] *Statist*, January 9, 1926, pp. 50–1.

[5] *Financial Times*, March 15, 1926, p. v.

wage index-number by the more usual method of dividing the index of money wages by the Board of Trade *cost of living* index, and, besides continuing his tables up to the end of 1926, have added a third line to his chart embodying the resultant table. The consilience of this new curve with the unemployment curve is, it will be seen, practically as close as that of Professor Rueff's original curve, so that no reason emerges for quarrelling with his method of presenting the facts. From the data thus brought together, one is strongly tempted—and Professor Rueff yields to the temptation [1]—to infer that the variations which have occurred



in the unemployment percentage are directly caused by the congruent variations in the average rate of real wages, and—which is, of course, not the same thing—that, if this rate were reduced to a level "proper" to post-war conditions, the excess unemployment, as compared with pre-war rates, would be eliminated. These inferences are not, however, really warranted. It is a matter of common knowledge that the great slump of

[1] Thus he writes: "Aussi nous bornons-nous à affirmer ici que, le chômage diminuant quand diminue le rapport $\frac{\text{salaires}}{\text{prix}}$, l'existence en Angleterre de plus d'un million de chômeurs indique que ce rapport n'a pas assez diminué pour que l'indice du chômage revienne aux environs de sa valeur d'avant-guerre" (*loc. cit.*, p. 433, note).

1920–1 had its origin in causes lying altogether outside wages, and was intimately associated, whether, as some hold, as the direct effect of a deliberate policy of monetary deflation, or, as others contend, as a joint consequence of the bursting of a gigantic bubble of unwarranted optimism, with a heavy fall in prices. In view of the general tendency of money wages to lag behind price movements, some rise in rates of real wages could hardly fail, in such conditions, to come about. The rise was predominantly an effect, just as the growth in unemployment was an effect, of the general causes lying behind the slump. It may be argued that, with these general causes in operation, the growth in unemployment would have been approximately as large as it was, even though the rate of real wages had been prevented from rising in any degree. We may, of course, disagree with this contention; but it is in no way inconsistent with the statistical facts, and cannot be refuted by reference to them. These correlations, therefore, interesting and suggestive as they are, must not be treated as an inductive proof of the conclusion set out in the preceding section. That conclusion must continue to rest upon the general considerations there advanced in support of it.

§ 4. If it is correct—if, that is to say, post-war wage policy is in fact responsible for adding some 5 per cent. to the volume of unemployment which is normally brought about by other factors—the country is confronted with a problem of a type which pre-war economics never found itself called upon to study. An extra 5 per cent. of unemployment—I do not, of course, stress the precise figure—is an extremely serious matter. It is serious in its immediate effect upon the output of material wealth, and even more serious probably, in spite of the palliatives of organised short time and unemployment insurance, in its indirect effect upon the industrial quality and personal character of those persons and their families upon whom it mainly falls. This class of effect would not, of course, be so grave if unemployment were spread evenly over all work-people, so that a permanent 5 per cent. of it meant that everybody was out of work during eighteen days scattered over every year. But, of course, in fact unemployment is not spread evenly, but a great proportion is concentrated in large masses on a limited number of specially unfortunate people. It is not necessary to labour what is obvious. Everybody will agree that, if it be true that wage-rates are set at a level involving a permanent addition of 5 per cent. to the numbers of the unemployed, the position is a grave one. Is no way available by which it can be improved?

§ 5. The commonest reply to this question is that what is required can be accomplished quite easily by preventing or checking the importation of goods which compete with the products of home labour. The arguments by which this thesis is commonly supported upon public platforms are not of a character to interest economists. The conclusion is not, however, proved to be false by the mere fact that most of those who believe in it do so for bad reasons. The issue must be examined on its merits. Classical doctrine, while recognising that the exclusion of certain classes of competing imports by prohibition, restrictive licences or high duties may, in appropriate conditions, yield long-run benefits by developing infant industries adapted to the country, preserving established industries from deliberately destructive attacks by foreign combinations, and so on, is sceptical of the more general claims popularly advanced on behalf of protective policies. It points out that foreign trade is not a one-sided but a two-sided operation, and that, subject to certain qualifications connected with international borrowing, the real issue is not whether British labour or foreign labour shall be employed in making motor-cars for Englishmen, but whether British labour shall be employed in the manufacture of these motor-cars or in the manufacture of export goods with which to buy them from abroad. We have a choice, the argument runs, between obtaining these motor-cars by making them or by making cotton goods to exchange for them. If, apart from fiscal interference, we should have chosen the exchange method, presumably that is the one which pays us best; and, therefore, to prevent us from having resort to it will do us a hurt. In either event British labour will—apart from the effect of industrial fluctuations—be fully employed. Interference with foreign trade will merely cause it to yield a smaller final product of the things we want than it would have yielded otherwise. This argument is plainly valid, if we assume that wage-rates are adjusted to demand and supply conditions; for this *means* that in a stationary state there is no unemployment, and in the actual world none beyond what is due to the fact of fluctuations. If, however, it be admitted that wage-rates are not fully adjusted to demand and supply, but, through collective bargaining or authoritative State action, are set at levels which, even in a stationary State, would involve some measure of unemployment, the above argument is no longer water-tight.

§ 6. To elucidate this matter it is convenient to imagine an artificially simplified case. Let the people of the country be

composed of two groups, equipped respectively to make food and to make motor-cars. The motor-car makers insist on a "living wage" at a level which, in existing conditions, involves a number of potential motor-makers being unemployed, and the food-makers on a wage which, while giving full employment to all present food-makers, will not allow of any motor-makers migrating to their industry. To focus the ideas, suppose that one-half only of the people attached to the motor-making industry are in work; the other half being sustained with food, in return for no service rendered, by the rest of the population. The food-makers meanwhile obtain half the motor-cars they want, say 100,000 a year, by exchanging food with domestic motor-makers, and the remaining half by exchanging it with foreigners. Suppose that in these conditions the Government decide to forbid the importation of foreign motor-cars. The food-price of motor-cars will go up, and the food-makers, therefore, are not likely to want as many of them as before. But, in order to get the clearest possible case, let us imagine that their demand is absolutely inelastic and that they *must* have 200,000 cars a year, whatever the price. They will then buy the whole 200,000 from the domestic motor-makers, all of whom will now be employed at their high living wage. *They* will obviously be much better off than before. The food-makers will be worse off than before, in that they have to pay a higher food-price for their motor-cars; but they will be better off in that they no longer need to contribute towards the support of unemployed motor-makers. Conditions can easily be conceived in which the extra cost of their cars is less than the savings they make in this way: so that they and the motor-makers are *both* better off than they would have been had the importation of foreign motors been permitted. Even if the conditions are less favourable, and the food-makers are worse off than before, it may still well happen that their loss (measured in terms of satisfaction) is less than the motor-makers' gain: so that the community as a whole—food-makers and motor-makers together—are advantaged by the policy of import restriction. It is clear, therefore, that, if wages are set at an uneconomically high level, *i.e.* at a level too high to admit all would-be wage-earners to be employed even in a stationary state, that policy will in certain conditions alleviate unemployment and not inflict any counterbalancing hurt.

§ 7. The policy is, however, strictly limited in scope. It goes without saying that it cannot be used to reduce unemployment in industries that make goods for export, nor yet in those

which, while manufacturing for the home market, are not subject to foreign competition. Moreover, even in home industries which are subject to this competition, it would often do more harm than good. Thus, against the extreme case of a perfectly inelastic demand for motor-cars on the part of food-producers, we may set the opposite extreme case of a perfectly elastic demand. In that case to stop imports of motor-cars would add nothing to employment in the home motor-making industries, while it would damage the food producers both by preventing them from getting half the cars they want, and, by destroying without compensation a market for their output, thus creating unemployment among them. It appears, therefore, that a good case for restricting competitive imports as a means of alleviating unemployment can only be made out in respect of commodities for which the home demand is considerably urgent or inelastic. A delicate discrimination would be needed, for which neither the available data nor the economic education of governing persons are at present adequate. If unemployment is to be successfully attacked, some device of more general application and more fool-proof in nature is required.

§ 8. Such a device may perhaps be found in a system of subsidies. Considerations analogous to those developed in §6 show that, wherever unemployment prevails on account of the establishment of wage-rates in excess of what are required to adjust supply and demand, benefit may be conferred on the community as a whole by the imposition of certain sorts of taxes and the expenditure of the proceeds in subsidies—such as the recent coal subsidy—upon wages in industries where there is much unemployment. As with the restriction of imports, so here the position is made clear most easily by means of a highly simplified imaginary case. Consider an agricultural community in which farmers own the land and employ labourers, all of whom are of equal skill. Let nothing else be produced except wheat and let wages be paid in kind. Let the conditions be such that, with wages at one bushel of wheat per day, all the labourers would find employment, but that, when the rate is put at one and a quarter bushels per day, 10 per cent. of them are out of work, and the aggregate output of wheat, instead of being A bushels, is cut down to $(A - a)$ bushels. Let the State insist, for humanity's sake, that a man out of work shall, nevertheless, receive, say, one-third of a bushel of wheat for maintenance, and let it take from farmers whatever amount of wheat is needed to permit of this. In such a case it is easy to see in a general way

that, if a tax is imposed on the income of farmers or on the rental value of their land, and the proceeds used to give a subsidy of so much per cent. on wages, the labourers are bound to gain, and the farmers—when their loss through the tax is balanced against the extra output of wheat and their savings in respect of unemployed labour—*may* gain. For a full understanding of the situation it is, however, helpful to make use of a few symbols.[1]

§ 9. Let $(x + h)$ workpeople be attached to a given industry, *whose products are not exported.* Let w_2 be the wage at which all of them would find employment; w_1 the wage which is actually established, and x the number of men that are actually employed. If then things are allowed to take their "natural" course, h workpeople will be unemployed in the industry. For humanity's sake these must be somehow provided for; so we suppose that a payment r is made to each of them, and—to make the case as strong as possible—that the whole sum hr is taken from non-wage-earners. This is the position in the absence of any subsidy. Now let a subsidy at a rate $s = (w_1 - w_2)$ be paid in respect of each workman employed; and let the funds for it be raised by taxation imposed on non-wage-earners (*e.g.* income tax). The wage (including the subsidy) paid to each workman will hereafter still be w_1—the workmen already in work will receive no more than before—but it will now pay employers in the industry to take on $(x + h)$ workpeople instead of x workpeople. The output of the new h workpeople taken on will have a value equal to some amount (dependent on the slope of the demand curve for labour) intermediate between hw_1 and hw_2. Let it be $\{hw_2 + hc\}$; which, in the special case where the demand curve for labour is a straight line, $= \{hw_2 + \frac{1}{2}h(w_1 - w_2)\} = \{hw_2 + \frac{1}{2}hs\}$. From these data it is easy to calculate loss and gain. Workpeople as a body obviously gain; for h more of them are employed at the full wage w_1 for which they stipulated. Non-wage-earners neither gain nor lose in respect of the x workpeople who would be employed anyhow. In respect of the others they make a payment in wages *plus* subsidy equal to hw_1: they obtain an extra product of a value equal to $(hw_2 + hc)$ (which is less than hw_1); and they save a payment to unemployed workpeople equal to hr. Their net gain is, therefore, equal to $\{hw_2 + hc + hr - hw_1\} = h(r + c - s)$. This is necessarily positive provided that the rate of subsidy required is less than the rate of contribution which would have been paid to unemployed workmen. In the special

[1] The analysis which follows was suggested to me by Mr. Ramsey of King's College, Cambridge.

case where the demand curve for labour is a straight line it is equal to $h(r - \frac{1}{2}s)$; which is necessarily positive provided that the rate of subsidy is less than twice the rate of contribution to unemployed workmen. It is obvious that, even when these conditions are not satisfied, and non-wage-earners, therefore, suffer a real loss, wage-earners and non-wage-earners together are bound—apart from possible indirect effects of the *process* of tax-raising—to gain substantially.

§ 10. The foregoing analysis was explicitly confined to industries whose products are not exported. If the policy of subsidies were applied to export industries, the balance of gain and loss would work out less satisfactorily, because foreigners, instead of domestic users, would get the benefit of the price reduction due to the subsidy; in effect British non-wage-earners would be paying substantial costs for work done for foreigners, which, had there been no subsidy, foreigners themselves would have paid. Here, therefore, there would only be a net gain to British non-wage-earners if the foreign demand were so extremely elastic that employment would be increased from x to $(x + h)$ by a subsidy s, such that $(x + h)s$ is less than hr. The case for subsidies as a means of alleviating unemployment is, therefore, substantially weaker for export industries than for others. Even so, however, it is clear that the subsidy device is applicable over a much wider range than the device of excluding imports that compete with home produce. It will lessen the volume of unemployment in all conditions, not merely in some conditions; and, so long as it is confined to industries whose products are not exported, it will correspondingly increase the real income of the country.

§ 11. The foregoing analysis is in principle favourable to a policy of wage subsidies, at all events in industries other than export industries, provided that the maintenance of uneconomically high wage-rates is taken for granted. When, however, we pass from generalities to more detailed considerations, pitfalls are revealed. The most obvious difficulty has to do with the comparative treatment of workpeople in different occupations. If all occupations were rigidly separated from one another, so that, not only could no one pass directly from one to another, but also the choice among them to be made by each new generation coming to industrial age was rigidly fixed, everything would be quite simple. Each occupation could be treated as a single problem. In real life, however, different occupations are not rigidly separated, and account must, therefore, be taken of

possible effects of a policy of subsidies in modifying the proportions of workpeople attached to different occupations. If exactly equal fiscal encouragement were given to all occupations, no effects of this kind would tend to come about. In practice, however, it can hardly be doubted that larger subsidies would be paid in industries with low wage-rates and large unemployment than in others. For example, at the present time the relatively distressed engineering and ship-building industries would certainly demand more favourable treatment than, say, the railway industry. As the demand for the products of any industry fell off and distress became more pronounced, higher subsidies, both absolutely and relatively to those ruling in other industries, would always be called for. Such pleas would often be acceded to. As a consequence, too many people would be set to and kept at work in some industries and too few in others. Extraordinary strength and competence on the part of the Government would be needed to prevent a policy of wage subsidies from acting in this way. If these were not forthcoming the resulting social loss might well be large. There is also a second serious danger. If the Government were in a position to control the wage demands of the workpeople as well as the amount of the subsidies, and if it were absolutely impervious to political pressure, the adoption of the above policy would not lead to any change in the rate of wages demanded. In practice, however, once the policy was adopted and, as a result of it, unemployment reduced to a low level, there would be a strong temptation to workpeople to demand higher wage-rates, while employers, hoping to recoup themselves from an increased subsidy, might not resist these demands very strenuously. In this way both wage-rates and the rates of subsidy would be subjected to a continuous upward pressure. This tendency, which would exist even in a stationary State, would be accentuated in the actual world; for in times of boom wages would tend, as now, to go up; and when, subsequently, depression came, there would be a powerful demand, very likely on the part of employers and workpeople acting together, for an addition to the subsidy to prevent them from falling again. The annual revenue required to provide the subsidy would thus tend to grow larger and larger continually. This is a serious matter. To adopt the subsidy plan is to set foot without adequate support on a very steep and slippery incline.

§ 12. The position then is this. If wage-earners insist on maintaining a real rate of wages above the economic level in the sense defined above, and if no mitigating action is undertaken by

the State, an abnormal volume of unemployment, with all the material and moral waste that this implies, is the inevitable concomitant. In principle it appears that this evil is susceptible of large alleviation, of a kind not involving injury to society at large, by a system of wage subsidies. But in practice it is almost certain that the application of such a system would be bungled, with large resultant social loss; nor has there hitherto been suggested any other alleviating measure with credentials as high as the subsidy plan can boast. I conclude, therefore, that insistence by wage-earners upon maintaining uneconomically high wage-rates must involve large unemployment and associated social evils, and that, in a democracy such as ours, these evils cannot be effectively cancelled. The inference is that it is against the interest of the community as a whole for wage-earners to insist upon uneconomically high wage-rates. That interest requires the restoration, at not too distant a date, of an equilibrium between wage-rates and demand and supply conditions. This does not necessarily imply that wage-earners must forego the benefit of whatever transfer of income from better-to-do persons to them would be made under a policy of wage subsidies. The same amount of money may still be handed to them under, say, a system of State endowment of large families, or in any one of many ways. Nor does it necessarily imply a reduction in the general level of real wages below which it is now. Increased efficiency, itself partly the result of better earnings, partly perhaps of a change in mental attitude, would enable a larger number of men to find employment at the present rate of real wages per week. Again, we may reasonably look to a gradual growth in the supply of capital and business ability and in the power of foreign countries to purchase British goods, which together will imply a rise in the demand for labour. Though the rate of capital growth is smaller than it was before the war, it is still considerably more than is needed to keep pace with the growth of population. The Committee on National Debt and Taxation calculate, on the basis of recent birth-rate statistics,[1] that the net addition, after allowing for emigration, to the supply of labour is likely to average about 125,000 a year up to 1931, about 46,000 from then till 1936 and about 20,000 from 1936 to 1941. They reckon some £400 per head of new capital to be necessary to set a new worker to work at the present standard of living.

[1] Appendix XXI to Report, p. 162. It will be understood that the calculation depends on births that have already taken place and not on estimates of future births, because, of course, people do not enter the labour market until at least fifteen years old.

Hence, to keep things in balance, provision of new capital at a rate of some 50 millions a year would be needed up to 1931, 18·4 millions from 1931 to 1936, and 8 millions from 1936 to 1941.[1] As even in the present depressed state of our industries the annual amount of new savings appears to be in the neighbourhood of 450 millions a year,[2] the demand for labour will almost certainly continue to rise relatively to the supply. Before very long, therefore, the country should be able to provide the present rate of real wages for its working population without suffering from an abnormal amount of unemployment. In this way the problem

APPENDIX TABLE

Years.	Quarters.	Dr. Bowley's index-number of rates of money wages. 1913 = 100.	Rates of money wages divided by Board of Trade index-number of wholesale prices. 1913 = 100.	Rates of money wages divided by Board of Trade cost of living index. 1913 = 100.	Trade Union percentages of unemployed.
1919	1	207	219	0·96	2·7
	2	209	212	1·01	2·2
	3	216	258	1·00	1·9
	4	221	288	0·91	2·9
1920	1	231	309	1·00	1·9
	2	250	324	1·01	1·1
	3	267	314	1·02	1·7
	4	273	284	1·01	5·0
1921	1	276	227	1·14	8·5
	2	268	201	1·21	20·9
	3	244	190	1·12	16·0
	4	228	174	1·15	16·0
1922	1	215	162	1·16	16·5
	2	202	160	1·11	16·4
	3	189	157	1·05	14·5
	4	178	156	1·00	14·1
1923	1	177	158	1·00	13·0
	2	177	160	1·05	11·2
	3	174	156	1·00	11·3
	4	173	161	0·98	10·4
1924	1	174	166	1·99	8·3
	2	177	164	1·04	7·2
	3	179	165	1·03	8·0
	4	179	170	0·99	8·8
1925	1	181	169	1·02	9·1
	2	181	160	1·05	10·6
	3	180	157	1·03	11·3
	4	180	117	1·02	11·1
1926	1	180	122	1·05	10·4
	2	180	124	1·07	12·6
	3	180	120	1·05	13·4
	4	180	120	1·01	13·0
1927	1	181	127	1·07	

[1] Report, p. 244.

[2] *Ibid.*, p. 16.

of post-war unemployment may be expected, so to speak, to solve itself. This, however, will only happen if the facts of the economic situation are realised by those who control wage policy. If every improvement in the real demand for labour is followed immediately by a corresponding increase in rates of real wages, the maladjustment which now exists between these rates and the conditions of demand and supply will *not* be corrected. Wages will be high, but more than a million people will be seeking work and failing to find it on every day of nearly every year.

A. C. PIGOU

FAMILY ALLOWANCES IN NEW ZEALAND

The Parliament of New Zealand, by the Family Allowances Act of 1926, provided for the granting of direct financial assistance by the State to parents who are at once sufficiently impecunious and prolific. The plan adopted is fundamentally different from that found in European schemes which have attracted so much attention during the past decade, and the measure may not unreasonably be claimed in some degree to restore the Dominion's title to the rank of pioneer in social and economic experimentation. The distinctive features of the New Zealand scheme lie in its being financed wholly at the expense of the general taxpayer and in providing for all families below a stated income-level, regardless of the employment or otherwise of the parents. Perhaps even more notable, and certainly more disquieting, than the adoption of this revolutionary principle is the almost entire absence of criticism or serious consideration of the matter either in Parliament or out of it. In the words of the local correspondent of the *Round Table*, "Though it embodied a principle of the greatest importance on which there had been no general discussion, the Bill was put through with the utmost speed and debated in the most perfunctory fashion. Introduced into the House on a Tuesday, read a second time on Wednesday, it was put through Committee in a few moments on Thursday, and then read a third time and passed"—passed, it might be added, without a division in the House of Representatives and with an almost equal degree of unanimity in the Legislative Council.

In common with other countries, New Zealand can point here and there to instances in which even before the war the employee's conjugal condition was reflected in his remuneration, *e.g.* the payment of married allowance to State school teachers, while income-tax exemptions on account of children amounted to much the same thing as family allowances for a certain section of the community. Similarly, during war and post-war years, allowances and pensions to soldiers' families, calculated at per child, and unemployment relief, furnished conspicuous cases of the recognition of the needs factor in determining family income. These exceptional cases, however, chiefly serve to emphasise the

general unconcern of the community in the family responsibilities of its members. In contrast with the widespread discussion and controversy in European countries and in Australia, very scant attention was given to family-allowance or motherhood-endowment proposals in New Zealand. Private members' Bills introduced into Parliament in 1922, 1924, and 1925 received short shrift; nor was public interest roused to any perceptible degree by a visit to the Dominion in 1924 of Mr. A. B. Piddington, K.C., the chief propagandist of family allowances in Australia. It is significant, too, that a bulletin (*Family Allowances in Foreign Countries*) issued by the United States Bureau of Labour Statistics in March 1926, containing a survey of twenty-seven countries, cites New Zealand as one of the three countries having absolutely no family allowances in private industry.

The genesis of the political controversy which led to New Zealand's plunge into family allowances was a reference to the subject in the annual report of the Secretary of Labour (a non-political, Departmental officer) presented to Parliament in 1925, which happened to be Election year; after mentioning Mr. Piddington's visit and the Arbitration Court's pronouncement regarding the family-wage problem, the report briefly outlined a contributory system of family allowances as "one possible solution of the question." In regard to this the Minister of Labour, when later speaking on the Family Allowances Bill, said: "The remarks embodied in last year's report of the Labour Department were certainly not the policy of the Government, and I do not suppose the Government gave the proposal two minutes' consideration." The essence of the illustration used was that a sum of 7*s.* 6*d.* weekly should be deducted from all adult men's wages, so providing a fund adequate to allow 7*s.* 6*d.* per week per child. This reference, in conjunction with a sentence in the Prime Minister's Election manifesto, was construed by the Labour Party into a threatened "raid on wages" and was eagerly seized upon in the constituencies. The outcome was a definite promise by the Prime Minister: "The Government intend to make provision out of the Consolidated Fund of the country for financial assistance to people on the basic wage who have more than two children." Returned to office with an overwhelming majority, the Government redeemed the Prime Minister's promise during the first session of the new Parliament.

New Zealand's Act

The scheme adopted may be summarised as under, closely following the words of the Statute:

(1) On application to the Commissioner of Pensions by the father of three or more children, an allowance shall be payable at the rate of two shillings a week for every child in excess of two, but so that the average weekly income from all sources shall not exceed four pounds together with two shillings for each child in excess of two.

(N.B.- "Child" means a child under the age of fifteen years, being a son, daughter, stepson or step-daughter of the applicant, and includes a child legally adopted, but does not include an illegitimate child, or any child not maintained as a member of the applicant's family, or any child receiving a pension out of public moneys.)

(2) In computing the average weekly income, account shall be taken of all money or money's worth received within the year immediately preceding the date of the application, and interest at 5 per cent. (or such higher rate as may actually be received) on the value of the beneficial interest of any member of the family in any property (other than furniture and personal effects). The Commissioner may, however, take into consideration any increase of income which any member of the family may be entitled to receive in the ensuing year, or any decrease of income to be suffered by any member of the family in that year.

(3) Where, by reason of physical or mental defect, a child is totally incapacitated from earning a living, the allowance may be continued beyond the age of fifteen years.

(4) The Minister may authorise the payment of an allowance in respect of an illegitimate child.

(5) Generally, allowances shall be paid to the wife of the applicant. If, however, the wife is not living with the applicant, or if for any other reason the Commissioner is of opinion that payment should be made to the applicant personally, the allowance may be paid to the applicant. Similarly the Commissioner may in special cases pay the allowance to any reputable person.

(6) No allowance shall be payable unless the applicant has been permanently resident in New Zealand for not less than one year, and the children in respect of whom the allowance is payable have been resident in New Zealand for not less than one year, or have been born in New Zealand.

(7) Save with the direction of the Minister, an allowance shall not be payable in respect of the children of any person who is an alien or an Asiatic even if he (the Asiatic) is a British subject.

(8) The Commissioner may refuse to grant an allowance if the applicant or his wife is of notoriously bad character, or has been guilty of any offence or misconduct "dishonouring him or her in the public estimation," or if either has foregone any property in order to obtain an allowance or to avoid its reduction.

Leaving aside minor points, which will be very briefly touched on later, two main issues call for consideration :—First, whether the principle of deliberately basing income to some extent on number of offspring is sound, or whether any device embodying that principle would lead to evils worse than those intended to be remedied. Secondly, admitting the principle, is a national system of family allowances, financed and conducted by the State, preferable to private or semi-private schemes organised on an occupational or regional basis? In regard to the former, it is proposed to examine a couple of substantive arguments in favour of the principle and to consider the validity of a number of objections raised against it. Then in the light of the legitimate purposes sought to be accomplished we shall perhaps be better able to judge the relative merits of alternative methods of tackling the problem.

The Need for Action

What unquestionably constitutes the strongest argument for some ameliorative action is furnished by the present plight of an immense number of children. It is easy for critics to boast of our national prosperity and to overlook the fact that such may co-exist with very considerable poverty and distress. This might well be stressed in reply to the suggestion that the expedient of family allowances may properly be adopted only by poorer countries : clearly, children in "wealthy" countries may stand in no less need of assistance. So far as New Zealand is concerned,

fairly full information is available, for by a happy coincidence the quinquennial census was taken shortly before the introduction of the Government's Family Allowances Bill, and advantage was taken of the opportunity to secure data. Briefly, the position revealed is that some 50,000 children, or not less than one-eighth of the total child population, are in a state perilously near to destitution. Prices in this Dominion are on a high level, and no informed person pretends that a weekly wage of £4 can leave a family any surplus for luxury. Yet the figures quoted by the Minister in charge of the Bill showed that 32,762 breadwinners, with 80,265 dependent children, had incomes under £4 weekly, and of these 50,989 children belonged to families with three or more children. No doubt a scrutiny of individual cases would show mitigating circumstances, such as the receipt of monetary or other aid not accounted for in the census returns; but it would be futile to suggest that the figures as a whole can be so explained away. Nor would it be difficult to produce corroborative evidence from other sources, as, for instance, the war-time revelations of physical deficiencies in recruits, or, more pertinently, the reports of school medical officers. The latter show that some ten per cent. of children suffer from what is euphemiously termed "subnormal nutrition": no small amount of this child starvation is doubtless due to parental ignorance rather than to poverty, yet it is difficult to avoid the conclusion that in this prosperous young country an amazingly high proportion of the next generation lacks the bare physical minimum of a decent existence. It is well to remind ourselves, too, that to the extent that we pride ourselves on an exceptional degree of national prosperity the toleration of such poverty in our midst is all the greater reproach.

An argument for family allowances which finds favour in New Zealand, as in Australia and France, is that they will increase, or at any rate check the decline in, the birth-rate. It is natural to find this contention stressed in countries where public opinion welcomes with uncritical enthusiasm any promise of increased population, and New Zealand is at present such a country. Thus "an increase in the birth-rate, a lowering of the death-rate (especially that of children) and immigration" are held out by Piddington as probable advantages to Australia through family allowances. Similarly, the New Zealand Labour Department's 1925 report affirms that, granted family allowances, "the average size of the family would tend to increase and single men would be encouraged to marry"; while the Government's 1925 Election

manifesto suggested the granting of assistance to wage-earners "so that large families will be encouraged and not discouraged." More crudely still, in New South Wales the Minister (Nationalist Party) in charge of the Maintenance of Children Bill, 1919, on being urged to "encourage matrimony," replied: "So this will. They are going to get paid for children." Another gem from the same source is provided by the Health Minister in the Labour Government when speaking in the debate on Motherhood Endowment (1920): "We want to encourage the women of the community to bear children. . . . The civilised races are over-educated. We are confronted with the appalling position that the coloured races are breeding at the rate of ten to one" (N.S.W., Hansard, Vol. 82, p. 4087).

Apart from the highly objectionable notion of holding out financial inducement for the production of children, one may well question the wisdom of endeavouring to increase the birth-rate among the relatively unsuccessful members of the community, for under the New Zealand family-allowance scheme at any rate these alone are beneficiaries. It is true enough that lack of "success" as that term is popularly understood furnishes no conclusive evidence of a man's inferiority in any significant sense. It is broadly, and only broadly, true that where universal education offers reasonable prospects for talent to find its own level, then existing social stratification does reflect merit; and this is, of course, no denial either of the truth that ability and character do not always raise their possessor out of the ranks of unskilled or poorly-remunerated labour, or of the equally obvious fact that numerous members of the "superior classes" exhibit characteristics which no well-wisher of humanity would desire to see perpetuated. The point to be stressed is that to accelerate the rate of reproduction by the least successful section of the community must tend to the increase of less desirable types. Even if the country is short of population—and this is questionable—it is not easy to see that any commendable service is rendered either to the community or to the individuals directly concerned when further children are brought into existence by parents who already have more than the average number of children to support on less than a basic wage. Why should such parents be encouraged to have still more children to share the already inadequate family resources? Does anyone imagine that the more children a family has the better?

If, then, family allowances would encourage poor people to beget larger families, this fact would constitute a powerful

argument against such allowances. Happily, however, there is no little evidence to support the view that the tendency may well be in the opposite direction. It is a statistical commonplace that a high birth-rate, only partially offset by a high death-rate, prevails under poor social and economic conditions. On this point the admirable report of the New Zealand Cost-of-living Commission (Parliamentary paper, 1912: H.—18, p. xlvii.) found substantial evidence of improved material conditions over a thirty-year period, "attended by a rising marriage-rate, fewer births per marriage, a diminution of the size of the average family, and a falling bankruptcy-rate, all indicative of a rising standard of life." "The hopelessness of a proper discharge of parental duties breeds a recklessness in incurring them." Indeed, that improved conditions are reflected in a reduced birth-rate is the most encouraging fact that social investigation has revealed, since it entitles us to hope that any substantial improvement effected in the economic condition of the masses will tend to ensure its own continuance and will not be cancelled out by an increased birth-rate. It must, of course, be added that the utility of family allowances in this direction is limited. The existence of a relatively large family is here a condition precedent to the granting of relief. Moreover, income affects birth-rate only indirectly and through the standard of life, and allowances would require to be very substantial to influence that standard. As much as can safely be said is that the contention that family allowances will encourage large families is not well founded and that the birth-rate, depending as it does upon a variety of factors, will probably not be materially affected either one way or the other. This is the experience of France: several years of family allowances, combined very often with more or less ingenious devices to reward the begetter of numerous offspring, have not affected the birth-rate.

Incidentally, it is to be noted that to the extent that the above challenges the hopes of birth-increase propagandists it also suggests an answer to those who fear that monetary aid to parents as such will result in an overwhelming deluge of children. We are justified in anticipating not larger families but fewer children, better cared for, when nations, classes, or individuals achieve improved economic conditions.

In view of the relatively heavy rates of infantile mortality suffered by excessively poor families, it is reasonable to hope that the institution of a system of family allowances will result in a saving of infant life. This indeed has by one critic been

construed into an objection to such allowances! (article by Sir Charles Harris in *Edinburgh Review*, July 1926). From a merely statistical view-point it is true that reduced infantile mortality is equivalent to an increased birth-rate, but to describe the two as being "the same thing" is to ignore the human factor. Similarly, when Dean Inge suggests that in order to reduce the average size of the family we should either "reimpose school fees or enact that the State will educate two children in each family free but no more" (*Outspoken Essays*, Series II. p. 271), he prescribes a form of visiting the fathers' sins upon the children, doubtless in keeping with Old Testament theology, but wholly repugnant to all decent ideas of children's rights.

The upshot of the foregoing is that if family allowances are to be justified, it must be simply as a measure of child welfare and not as an expedient designed to tinker with the birth-rate.

Some Objections Examined

(1) *Effect on industry.*—A plausible objection to the principle of family allowances is that only increased wealth-production and no system of mere redistribution can rescue the mass of the people from poverty. This is undoubtedly true, and any influence tending to reduce the total quantum of wealth is to be deprecated. It is desirable that society should remunerate its members according to their efficiency in production, not in reproduction. This is well expressed in a resolution adopted by a conference of Christian Trade Unions (Belgium) and cited in the U.S.A. bulletin referred to above: "To fix wages in accordance with the number of dependent children and not in accordance with the work performed would have grave economic drawbacks, for the extinction of the hope of receiving a larger wage for more and better work tends to paralyse the efforts of ambitious workers to equip themselves for more highly skilled service." It is, of course, possible to carry this argument too far, or far enough to raise embarrassing questions. Are all men doomed to paralysis of ambition if they enjoy, or their children enjoy, some semblance of security against starvation? "It is curious," writes Professor A. G. B. Fisher, "that people who make this objection (*i.e.* urge the need for relying on self-interest as a motive to economic activity) never argue that the possession of a secure income will encourage idleness in professional or business men" (*Wages and their Regulation*, p. 204). Indeed, if society is to aim at apportioning wealth strictly in proportion to men's productive efficiency,

how can the institution of inheritance be justified? And if that standard of distribution is to be relaxed, why not in favour of children?

Clearly, an adequate treatment of this topic would involve a digression into the endless problem of motives in industry. Suffice it to say that it is vitally necessary to maintain a clear connection between wealth-production and reward, while at the same time conceding the force of Tawney's remark: "The assumption that the stimulus of imminent personal want is either the only spur, or a sufficient spur, to productive effort is a relic of a crude psychology which has little warrant either in past history or in present experience" (*The Sickness of an Acquisitive Society*, p. 78). The objection under this heading to family allowances is akin to that commonly raised to a guaranteed minimum wage, and in either case it is largely met by insisting on a clear distinction between minimum wages and wages above the minimum: though the former be determined primarily by human needs, the latter should depend upon the market value of services rendered, so that the stimulus of personal gain from increased effort will remain (cf. B. Seebohm Rowntree, *The Human Needs of Labour*, p. 15).

One point of some practical importance deserves mention in this connection, and that is the need for care in determining the benefit allowed by way of family allowance to the marginal recipient when the allowance is confined to persons below a stated income-level. Obviously, to allow the full amount up to a certain wage, and nothing to wage-earners immediately above that limit, would penalise the latter and offer a direct monetary inducement to reduce their earnings in order to qualify for the allowance. This anomaly is avoided in the New Zealand scheme as indicated in paragraph (1) of the epitome of the Act above, but an incongruity remains which can be illustrated by a supposititious case: the parent of eight children, six of whom are beneficiaries under the scheme, has nothing to gain by any weekly wage-increase between £4 and £4 12*s*., nor will he suffer any net reduction in income by a fall in his wage from the larger to the smaller sum. With the allowance at its present low rate this is not serious, but future increases in the rate will expand the "doldrums" in which the individual is liable to find himself. This should be remedied by the adoption of some such formula as the following (accepting present rates for illustration). The "basic income" shall be £4 weekly plus 2*s*. per child in excess of two, and the family allowance shall be at the weekly rate of 2*s*.

per child, the total allowance being diminished by one-half of any excess of actual earnings and allowance combined over the "basic income."

Finally in this connection, weight should be given to the possibility of improved efficiency which may well follow the wide adoption of family allowances. "In the light of modern industrial research there seems to be good reason to believe that the increased sense of security given to fathers of families should result in a capacity for greater output without undue strain" (Vibart, *Family Allowances in Practice*, p. 172). This is a factor the influence of which is likely to be ignored or underrated rather than exaggerated.

(2) *Effect on general level of wages.*—An objection to family allowances which deserves very serious consideration is that they may menace the general level of wages, and particularly the earnings of single workers. The reality of this danger is nowhere better shown than in the writings of enthusiastic advocates of family allowances. It is easy to demonstrate that single and childless men commonly enjoy a surplus beyond the needs of bare subsistence, and any device promising to eliminate that surplus is likely to commend itself to some employers as an admirable measure of wage-economy. Thus Piddington (*The Next Step*) shows how costly to employers are the "mythical" wives and children of employees, and he suggests (pp. 34-5) that under the "family basic income" system the aggregate wages-bill (including children's allowances) may be less than at present. Much of the popularity of family allowances in France is clearly due to their offering an alternative to wage increases. Similarly, the Minister in charge of the New South Wales Maintenance of Children Bill, 1919, speaking of the wage of £3 17*s.* per week fixed by the Board of Trade, said, "We are going to take it away from the man who has not a wife and two children" (N.S.W. Hansard, Vol. 77, p. 1854). Miss Rathbone, too (*The Disinherited Family*, p. 56), argues that young unmarried men have been able to "fight the battle of higher wages from behind the petticoats of their hypothetical wives and children"; hence they "manage to lead a fairly luxurious life on their wages, and enjoy tobacco, alcohol, cinemas and expensive sweethearts" (p. 223). Again, to refute Rowntree's defence of the bachelor's surplus as necessary to enable a young man to prepare for his future family, Miss Rathbone asks: "Does experience lead one to suppose that the surplus enjoyed by the bachelor is in fact generally spent on saving for the equipment of a future home or on immediate football and cigarettes?"

It is clear that with the institution of family allowance systems there is need for especial vigilance on the part of organised labour to maintain at least established wage standards. Particularly is this true in times such as the present, when fluctuating price levels and confusing money values expose those standards to insidious influences not readily apprehended. Nor is this danger anywhere greater than in New Zealand; for here wages are arbitrarily determined from time to time by the decree of a Court, and it is not inconceivable that the provision of children's allowances from a source other than wages may be taken to justify a smaller wage. On the other hand, however, it is arguable that such allowances, given in the form adopted in this Dominion, will strengthen the workers' bargaining power by lessening the sting in the whip of starvation which now gives employers such an advantage in a strike or lock-out. It is not inconceivable that with a Labour government in office the future will show that our 1925 Parliament has sanctioned "without further appropriation than this Act," the immediate payment of family allowances to striking or locked-out workers even though their earnings, when employed, may exclude them from the benefits of the scheme.

(3) *"Socialistic" or "Dole" as objections.*—In this enlightened age, when one stinging epithet is worth half a dozen dispassionate arguments, it is worth glancing at a couple of popular one-word objections to the family-allowance principle. To describe a proposal or an opponent as "Socialistic" is sufficiently damning to satisfy those people who ignore the fact that this elusive term scarcely means the same thing to any two persons. "The Bill will have the effect of introducing socialism and State communism and doing away with the independence of the breadwinner," declared an opponent of the Maintenance of Children Bill (N.S.W.) in 1919 (Hansard, Vol. 77, p. 1854). This sort of "argument" could be paralleled by quotations from every controversy regarding family allowances—except in New Zealand; first, because there was no controversy at all when our Bill was introduced, and secondly, because the promotion of the scheme by an ostensibly anti-socialist Government happily preserved us from inanities that might otherwise have been inevitable. The use of question-begging epithets in this connection, in substitution for consideration of the proposal on its merits, is but typical of political controversy, where labels readily dispense with the painful necessity of thought. In much the same category is the disposal of family allowances merely by a contemptuous reference to "dole." This objection is picturesquely phrased by

Dr. Schiller: "Let us universalise the dole! We can have doles for the unemployed, the sick, the old, for mothers, for industry, for trade, for education, for science, for the Empire. . . . So a policy of doles for all would assuredly please all parties and catch many votes" (*Cassandra*, p. 48). The very comprehensiveness of this condemnation, embracing as it does virtually all forms of State activity, suggests that the term "dole" is a highly elastic one. Indeed if family allowances, or "doles for mothers," be recognised as consistent with established practice, much of the objection on the score of their novel character must disappear, and here it is relevant to cite the income-tax rebate allowed family men. In New Zealand this concession ranges in value from £1 6*s*. 3*d*. to £11 5*s*. per child per annum according to the parent's income. To the father of three children who happens to be in the highest income-group the State makes a tax reduction of £33 15*s*., or 13*s*. weekly: the man receiving less than £4 weekly and having three dependent children is allowed 2*s*. weekly, and this can not unreasonably be regarded as a refund of a part of his indirect taxation. Of these two forms of State aid to the family man, why should the 2*s*. weekly and not the 13*s*. weekly be stigmatised as a "dole"?

National System versus Occupational or Regional Systems

If the principle of family allowances is conceded, the important question remaining is whether provision should be made through taxation levied by the general Government or through some system of pools, on a regional or occupational basis, such as is common in Europe. In the last analysis, of course, the issue is simply between alternative methods, and it is easy to exaggerate the difference. In either case the expenditure is a charge on industry, and the fact that this is apt to be overlooked is perhaps the most potent objection to the method adopted in New Zealand. On the other hand, one comprehensive, national system has distinct advantages.

First, a degree of completeness and regularity is possible under a national, state-financed system which could not be otherwise attained. To the extent that a country lacks large, stable industries the difficulties would be enhanced, and this is precisely the position of New Zealand. Not merely are the people notoriously migratory, but the scale of our industries is such that the average number of employees in factories is less than twenty. The experience of France shows the difficulty of

providing for agricultural employees under a pool system, while the case of independent tradesmen and peasant proprietors presents even greater difficulties. Failure to provide benefits for families in rural areas equivalent to those provided for city dwellers would tend to aggravate the drift to the city on the part of relatively large families. Almost inevitably, too, the payment of allowances from an industrial pool would be contingent upon the parent's continued employment. Indeed this fact has at times been seized upon by continental employers as a valuable by-product of the system. Thus Professor Douglas (*Quarterly Journal of Economics*, March 1924) refers to instances of the cancellation of a full month's allowance for absence extending over any fraction of the month, doubtless an effective device for what is called "improving industrial relations," or "stabilizing the personnel," but open to the objection that, in Miss Rathbone's phrase, it amounts to "making the sufferings of children a lash for their father's back." That the allowances when provided through the Exchequer can be unprejudiced by interruption, through strike or otherwise, in the breadwinner's employment, is an excellent reason for their provision from this source. Accept the children's welfare as the end in view, and no other answer is possible to the question whether family allowances should be cancelled by a strike or lock-out or by any other contingency so long as the children's need remains.

A second and substantial advantage of a centrally-controlled national system of allowances is that of economy in administration. A multiplicity of sectional schemes means heavy overhead costs, while the State Pensions Department has the necessary machinery ready to function.

A collateral advantage from family allowances is that social welfare provisions may be attached for the benefit of recipients, and this constitutes a good reason for administration by the State rather than by or on behalf of employers. Under State administration it is possible to impose conditions, such as those in the New Zealand Act summarised as clauses (5) and (8) above, which conditions may be highly objectionable if imposed by private individuals.

As far as finance is concerned, it is not difficult to justify the finding of the cost of family allowances by general taxation. If the workers in each industry were recruited from the children of its own employees, and if family allowances were intended to be a *quid pro quo* for services rendered in furnishing recruits, there would be a strong case for levying a direct charge on each

industry proportionate to its number of employees; but neither of these hypotheses is correct. Child welfare, the essential object of family allowances, is a matter of paramount national concern, and direct State action in this regard is on a par with such action in the realm of education.

The conclusion suggested is that the advantages of a single national system easily outweigh the advantages of a number of sectional schemes. It remains to refer to a couple of anomalies in the New Zealand scheme which has been the subject of this article.

Most glaring is the complete omission of aid for one- and two-child families, however poverty stricken. It may be that the basic income of £4 weekly covers the requirements of a four-member family, but this is not a strong reason for withholding even a pittance from children whose parents are not in receipt of that basic wage. By what process of reasoning can one prefer the claim of a three-child family with £4 weekly to the claim of a child indiscreet enough to be the only child of parents with a wage of any sum down to nothing per week? So far as a case can be made for the exclusion of these children, the following reasons have been advanced:—(*a*) the first two children represent mere replacement of parents and do not increase the net population; (*b*) wages generally are adequate for the two-child family, and in New Zealand the Arbitration Court is commonly supposed to base its awards on the cost of upkeep of such a family; (*c*) the mother of one or two children is more easily able to work outside the home than if she has three or more children, and family allowances are intended to compensate for loss of earnings; and (*d*) the greatly increased cost of providing for one- and two-child families. None of these points establishes a case for the omission of the smaller families, and the first amendment to the New Zealand scheme should be in the direction of including them. In this respect we have something to learn from the French contributory schemes, in five-sixths of which, according to Professor Douglas, allowances to dependent children begin with the first child. (*Wages and the Family*, p. 59.)

A minor anomaly is that which arises from the exclusion of aliens, and particularly of Asiatics, "whether naturalised or not, or whether British subjects by birth or not." No doubt this provision is politically unavoidable, but the following comment on a similar provision regarding Old Age Pensions is applicable:

". . . Asiatics are disqualified even though they may

have been naturalised. Their exclusion seems a matter of course to the people of New Zealand and Australia, who are possessed of an unconquerable antipathy to all Asiatics. But if racial prejudice is excusable, it should be carried to its logical conclusion, and Asiatics should not be allowed to become naturalised. Under both English and New Zealand law it is declared that a naturalised subject 'shall be entitled to all political and other rights, powers and privileges, and shall be subject to all obligations to which a natural born British subject is entitled and subject.' Therefore, while an Asiatic is permitted to take out letters of naturalisation, he is denied the rights which such letters expressly confer." (Le Rossignol and Downie Stewart, *State Socialism in New Zealand*, p. 187.)

Conclusion

Our general conclusion is that, even in this reputedly wealthy and specially-favoured country, industry in the broadest sense has grievously failed to do elementary justice to children, and that interference from politics to redress the balance is justified. The principle of family allowances is beset with dangers, though against these must be set actually existent evils which may be mitigated. These allowances, as a means of encouraging the procreation of children, are a highly objectionable device and unlikely to be effective in practice. As a comprehensive measure of child welfare, however, they are to be approved, and their direct provision by means of taxation provides an eminently satisfactory form of State activity—promising, without diminishing production, to improve the distribution of wealth by the transfer of purchasing power to a most deserving quarter.

R. M. Campbell

*Victoria University College,
Wellington, N.Z.*

A NEW METHOD OF WAGE ADJUSTMENT IN THE LIGHT OF THE RECENT HISTORY OF WAGE METHODS IN THE BRITISH COAL INDUSTRY

No industry in Britain has gone so far in the direction of publicity as has the coal industry. By the terms of the 1921 agreement, wage fluctuations were made to depend directly, and by an explicit scale, on the amount of profits earned. This agreement, in spite of faulty drafting, was strikingly original, because it established, for the first time in the history of industry, a definite system of dividing the total proceeds of each district between wages and profits. It is unfortunate that the industry should have been in recent years the scene of such acute dissensions that the quiet progress within it of a new principle of wage adjustment should have been almost entirely overlooked. Further, the new method seems, after an extended trial, to have commended itself to both parties in the industry, for, although it was entirely a product of the owners' ingenuity, and made effective only after a three months' stoppage, the miners have never so far demanded its abolition. The following is an attempt to consider its economic results, and to see how far it can be recommended for more general adoption.

The nature of the coal industry makes it essential that wage costs should be exceedingly elastic. The amount of capital invested in the industry is very small relative to the number of workers engaged in it, and, as the direct labour costs constitute about 70 per cent. of the total cost of production, the margin of profit is, therefore, extremely sensitive to the slightest variation either in the proceeds of the industry or in its wage rates. The former is considered uncontrollable by the owners in an industry which includes 1400 separate, competing concerns. Hence, since the colliery proprietors of the Tyne and Wear were compelled to abandon in 1844 their systematic organisation for the fixing of prices by the "Limitation of the Vend," no serious attempt has been made in Britain to interfere with the operating of the invisible hand. But wage rates have always been considered fair game, and attention has been almost exclusively concentrated on securing an adequate remuneration for capital by establishing sensitive machinery for the continual adjusting of

these rates to correspond with the fluctuating proceeds from the sale of the product. But in the early days it was impossible to ascertain total proceeds, and reliance had to be placed on the only handy index of trading conditions which was available, namely, the selling price of coal. Under both the formal sliding-scale system of wage adjustment, and the later conciliation board system, the selling prices of certain standard qualities of coal were taken as the best available criteria of the wage capacity of the industry. But it was soon discovered that availability was almost the one and only merit of the sliding-scale test. It ignored both the cost of production and the volume of trade as factors in trade prosperity. Although the conciliation boards were established in a spirit of protest against the system, they did, in fact, attain to nothing more than a freer and more elastic application of it.[1]

It was not until 1916 that an effort was made to evolve a better and more reliable index. In that year a committee of the Mining Association was appointed to consider the question, and its recommendations were embodied five years later in the wages agreement of 1921. Most writers on this subject ignore completely the existence of this early committee, probably due to the fact that its findings were never published, nor were they discussed with the miners at the time, because immediately afterwards the industry passed under Government control. They remained pigeon-holed until in 1919 Lord Gainford, on behalf of the owners, brought them before the Sankey Commission as the official proposals of the Mining Association for the future regulation of wages. The essence of the new plan lay in its abolition of the price criterion and the substitution of a profits criterion of wage capacity. The declared aim of its sponsors was the promotion of co-operation between themselves and the miners, and, to this intent, the arrangement provided that the workers should benefit directly by a reduction in costs. It was hoped thus to stimulate production by giving each man a direct incentive to invest his keenest interest and best skill in the industry.

In this short paper we cannot attempt to do more than briefly sketch the mechanism of proceeds-sharing, and endeavour to evaluate its results. In the period 1921 to 1926 four distinct sets of figures were used to embody the proceeds sharing principle in the coal industry. The first in 1921 provided, with the help of a

[1] For a detailed treatment of the sliding-scale systems, see *Sliding Scales in the Coal Industry*, by Professor Monro; *Industrial Peace*, by L. L. Price; *The History of Trade Unionism*, by Mr. and Mrs. Sidney Webb, and *The Adjustment of Wages*, by Professor Sir W. J. Ashley.

Government subsidy, for the gradual scaling down of wages, the second in 1924 provided for an increase in wages, the third in 1925 for maintaining those wages with the help of a further subsidy from the public purse, and the fourth, at the end of the seven months' stoppage, for a reduction in wages, accompanied by an increase in hours. For our present purpose the last two have no significance on account of their short tenure. The agreement of 1924 is important mainly because it meant that, in every one of the thirteen districts, with the single exception of the Eastern, wages became rigid at the level of the increased minimum rates it instituted. Only during the three years' currency of the 1921 agreement do we find the proceeds-sharing plan in active, if intermittent, operation.

Had the agreement with which the three months' stoppage of 1921 ended been as clear and simple as it was brief, it would have been a model of compactness, for within ten short clauses were embodied all the agreed details of the permanent wage settlement. As a matter of fact no new principle of wage adjustment was ever so badly served in respect of its draughtsmanship. Apart from flagrant omissions, the agreement was a mass of jerky, unco-ordinated statements, containing inconsistencies and even positive contradictions, and could quite well stand as a classic in muddle-headedness. It failed to define the industry—a matter of first importance in the coal trade where so many ancilliary undertakings are concerned—it bungled hopelessly the "recoupment clause,"[1] and it spoke of "the maximum reductions aforesaid," in relation to the month of October 1921, and never gave them at all. These cases—they are merely instances—serve to explain the large number of ticklish questions that had to be referred for decision to Sir William Plender, the independent chairman of the National Board for the industry, and they justify his rueful remark on one of these occasions: "In arriving at these conclusions," he said, "I have endeavoured to place a true construction upon a document (the agreement) obviously prepared under great pressure, and without that full and detailed consideration which the complexity of the problem required." The truth is that the final drafting of the agreement was rushed through very hurriedly under pressure from a Government with a substantial though rather elusive dole in its pocket, with the result that subsequently the independent chairman had to be called on

[1] See, for details of the anomalous recoupment arrangement, an article by the writer, "The Recoupment Clause in the Coal Agreement," the *Colliery Guardian*, January 11, 1924.

frequently to interpret the agreement to its composers. For our present purpose we shall ignore these initial muddlings, and treat the rulings of the chairman as if they were integral parts of the original document.

For the purpose of wage adjustment, the agreement divided the British coalfields into thirteen districts of very varying size and importance. This grouping corresponded with none previously adopted by the industry, and we may ask what principle was applied in the process of gerrymandering. With an eye to competitive equality, the owners suggested twenty-six districts; the miners, intent on promoting the uniformity of earnings through a pooling arrangement, insisted that the whole industry should be treated as one unit. The " principle " which determined the grouping will be sufficiently obvious. Of the thirteen districts, six were large and seven small. The wide discrepancy in size and importance between them is illustrated by the fact that the largest district produced ten times the tonnage of the seven small ones taken together. The six large ones were, in order of importance, the Eastern District, which included Yorkshire, Nottinghamshire, Derbyshire, Leicestershire, Cannock Chase and Warwickshire, then followed South Wales and Monmouth, Durham, Scotland, the Lancashire, North Staffordshire and Cheshire District, and finally Northumberland. The seven small areas were North Wales, South Staffordshire and Salop, Cumberland, Bristol, the Forest of Dean, Somerset and Kent.

Although the machinery for determining wages was arranged nationally and was common to all the districts, yet in its application each district stood as a separate and independent unit, and in each a District Board, with an independent chairman, was established to adjudicate in case of disputes. The actual periodical ascertainment of the working results in each area was performed by accountants appointed by each side. The owners were supplied with a standard " Form of Return," which they were required to fill up and return to the accountants for each period. These returns had to be certified and signed by a responsible official of the colliery, and in addition the accountants were empowered to conduct joint test audits of the books of any colliery for the purpose of verifying the accuracy of the returns. At first the returns were called for monthly, but, early in 1923, the miner's leaders urged that two-monthly periods be adopted with a view to enabling the accountants to make a more thorough examination of the accounts, and the owners agreed to this.

From the total proceeds from the sale of coal in each district,

wages and other costs of production were first subtracted. If any credit balance remained, such was, up to the extent of 17 per cent. under the 1921 agreement, and 15 per cent. under the 1924 agreement, allocated on paper to the owners as profit, but these percentages were calculated not on capital invested but on the total cost of standard wages for the period. This procedure was adopted to obviate the necessity of attempting an evaluation of capital. It was the intention of the owners in formulating the 1921 agreement that their standard profits should be guaranteed, in the sense that any deficiency in them should be made a cumulative, preferred charge on future proceeds. The recoupment provision inserted in the agreement, however, contained a fatal error in wording, which in reality nullified its intention, and cost the owners many millions of pounds. If, after the three items of wages, other costs and standard profits had been deducted from proceeds, any surplus still remained, it was apportioned between capital and labour. Under the 1921 agreement 83 per cent., and under that of 1924, 88 per cent. of this surplus went to labour, and the total was then expressed in the form of a percentage addition to basis wages, and was paid out in a subsequent period. The position may be made clearer by translating the formula into figures, under the terms of the earlier agreement. If the total proceeds in any district amounted to £868,000, with standard wages at the figure of £400,000, and other costs of production at £300,000, the owners' standard profits, would be £68,000, representing 17 per cent. of the £400,000. When these three items were subtracted from the gross proceeds the balance of £100,000 would remain. Of this, £83,000 would then be added to standard wages, making a total of £483,000 as the wage fund for the district. This amount would then be translated into a certain percentage on basis rates, and the figure would represent the wage rates payable for the following period at every pit in the district.

But the above arrangement for determining the "economic wage" according to the trading conditions in each district was subject to two important provisos. Both of these were designed to establish minimum limits under which wages should not fall, whatever the economic condition of the industry might be. The first laid it down that every worker from the highest paid to the lowest should, under all circumstances, receive not less than a certain percentage, 20 under the 1921 agreement, and 33⅓ under the 1924 agreement, over standard wages. The second proviso was less important in so far as it applied only to the lowest paid adult workers in each district: in their case, if their wages, as

above determined, did not reach a certain number of shillings per shift, subsistence allowances were granted to bring their wages up to what each district decided to be subsistence level. The effect of these provisos was to render inoperative the proceeds-sharing arrangement in every district for part of the time, and in many districts for most of the time. This was particularly the case during the currency of the 1924 agreement, which, as it so happened, took effect just as the temporary prosperity on which it was based came to an end. This intermittent operation of proceeds-sharing meant, in fact, that the industry experimented with two antithetical methods of wage determination, and the frequent contrasts presented enable us in some degree to estimate their respective merits.

In the following tables an attempt is made to trace the effects of the proceeds-sharing principle on the volume and regularity of employment, and on the output per man-shift. Five of the six large districts are taken, the remaining one, Lancashire, North Staffordshire and Cheshire, being omitted because in it wages were above the minimum percentages only in the first of the eight dates mentioned. The five districts taken produce over 85 per cent. of the total British coal output.

Eastern District

	1922. Jan.	1922. July.	1923. Jan.	1923. July.	1924. Jan.	1924. July.	1925. Jan.	1925. July.
						80	61	M.
A.	110	54	50	59	56		16·67	
B.			32					
C.	313	305	331	339	332	327	348	351
D.	20·48	20·50	20·84	19·85	20·60	19·91	20·30	20·08
E.	250		272		265		244	

South Wales and Monmouth

	1922. Jan.	1922. July.	1923. Jan.	1923. July.	1924. Jan.	1924. July.	1925. Jan.	1925. July.
						M.	M.	M.
A.	M.	M.	M.	38	M.		42·22	
B.			28					
C.	204	211	220	223	225	219	208	198
D.	17·13	16·74	16·91	15·89	16·19	15·88	16·36	15·75
E.	280		286		276		266	

Durham

	1922. Jan.	1922. July.	1923. Jan.	1923. July.	1924. Jan.	1924. July.	1925. Jan.	1925. July.
						120	M.	M.
A.	94	91	97	123	120		110	
B.			89					
C.	150	155	162	167	171	166	153	126
D.	18·04	17·74	17·68	17·10	17·15	17·07	17·91	18·20
E.	262		270		258		238	

SCOTLAND

	1922.		1923.		1924.		1925.	
	Jan.	July.	Jan.	July.	Jan.	July.	Jan.	July.
A.	133	M.	125	178	146	151	M.	M.
B.			110				133·33	
C.	120	121	132	134	134	127	127	116
D.	19·91	19·52	19·63	18·94	18·95	18·52	19·01	19·37
E.	265		275		259		254	

NORTHUMBERLAND

	1922.		1923.		1924.		1925.	
	Jan.	July.	Jan.	July.	Jan.	July.	Jan.	July.
A.	86	M.	99	139	125	122	M.	M.
B.			80				100	
C.	55	56	58	59	61	59	54	47
D.	17·37	17·13	17·31	16·86	17·12	17·27	18·05	18·05
E.	274		275		259		259	

A. The figures given after the letter "A," *i.e.* above the horizontal lines, are the percentages paid, to the nearest whole number, in the months stated, in excess of the basis wage rates in each district in accordance with the ascertainments prescribed by the National Wages Agreement of 1921 (January 1922 to January 1924 inclusive), and the National Wages Agreement of 1924 (July 1924 to July 1925 inclusive). These figures are taken from the Annual Reports of the Secretary for Mines; see, for 1922, p. 119, for 1923, p. 107, for 1924, p. 109, and for 1925, p. 117.

B. The figures given here, *i.e.* under the horizontal lines, represent the minimum percentage additions to the basis wage rates payable under the two agreements. As we saw, the minimum percentage was 20 under the first, and 33⅓ over standard rates in the case of the second agreement. The figures given as denominators show the percentage additions which result from applying these provisos in each of the districts. The letter "M" above the horizontal lines signifies that the wages paid were the irreducible minimum rates represented by the percentage additions given as denominators.

C. The figures in line "C" represent the number of work people employed, to the nearest thousand, at the times stated. To eliminate, as far as possible, variations due to seasonal demand, the unequal incidence of absenteeism local stoppages and holidays, the figures given are those for the quarter year which includes the months mentioned. These figures are taken from the Quarterly Statistical Summaries of the Coal Mining Industry issued by the Mines Department.

D. The figures in line "D" give the output per man-shift worked expressed in cwts. The outputs given relate to the same periods as the figures of work-people employed, *i.e.* the first and third quarters of each year. These figures are also taken from the Quarterly Statistical Summaries of the Coal Mining Industry issued by the Mines Department.

E. The figures here indicate to the nearest whole number the aggregate total of days in each year on which the pits in each area wound coal. These figures are a useful index of the intensity of employment, as distinct from its "spread," as indicated by the numbers employed. It has not been considered desirable to quote the separate figures for January and July, as these would misrepresent the position, owing to being affected by seasonal demand,

and the loss of coal-winding days through holidays, disputes, transport difficulties, and accidents to men and machinery. Detailed figures for each month are given in the Appendices to the four Reports of the Secretary for Mines; in the Report for 1922, p. 114, for 1923, p. 102, for 1924, p. 104, and for 1925, p. 112; and the general question of the causes of lost time in the industry is discussed in some detail in the Report of the Royal Commission on the Coal Industry (1925), pp. 180–5.

No dogmatic conclusions can be drawn from the above figures but, without straining the evidence, it seems reasonable to assert that two important deductions possess a high degree of probability. The first is that the operation of the agreements tended to promote both the increase in numbers employed and the regularity of their employment. The figures present us with two significant contrasts. Increases in wages were, as the tables show, given on two distinct principles. Where the proceeds-sharing arrangement operated, increases in wages were granted because the ascertainments showed that the wage capacity of the district had improved, and, as the figures indicate, such increases were accompanied by an increase in the numbers employed, and an increase in the regularity of work. But, on the other hand, where increases were given solely in virtue of the raising of the minimum rates, as by the agreement of June 1924, the results were precisely the opposite. In the tables given the only apparent exception to this was in the case of the Eastern District, where wages were at the minimum for the first time in July 1925, and yet the numbers employed were at the maximum, although the regularity of employment was severely affected. The increase in numbers employed is doubtless due to the large numbers of new pits that are being sunk, particularly in the Mansfield and Dukeries areas in this district.

The second deduction is that the operation of the agreements had no effect whatsoever in stimulating output. In tending to steady employment, the agreements did what nobody claimed they would do, but equally they have not achieved what everybody claimed they would. The owners who sponsored the new principle, and the Government which supported them, both considered that its chief merit lay in the direct incentive it provided the men to increase their output. For instance, Lord Gainford, the official spokesman of the Mining Association, said in his evidence before the Sankey Commission: "The whole scheme, if I may emphasise the point, is directed to give to the workmen for the first time a real interest in securing increased production . . . the men have a direct incentive to do their

best in their respective working-places." [1] And later, he added: "Each workman under the scheme would practically become a policeman watching his neighbour with a view of trying to help the economic production of the colliery." [2] Mr. Lloyd George, in announcing the settlement in the House of Commons on June 28, 1921, reiterated even more emphatically the same claims to the accompaniment of the plaudits of the assembly. As a matter of fact there is not the slightest evidence to show that the agreements reacted favourably on output. If we compare the tonnage of coal raised per person employed underground before and during the agreement, we shall fail to trace any objective results of the alleged new incentive.[3]

A peculiar feature of the figures before us is that the output per man-shift actually increased when the agreements were inoperative. When wages were down to the minimum output was greatest. This was probably due to the dismissal of men working less productive seams, or to greater diligence and better time-keeping in face of the possibility of unemployment. But in any case the practical application of the new method gives no ground for claiming that the hopes of its originators have been realised. Nor did theory ever support them. Had they, indeed, possessed an elementary knowledge of the history of profit-sharing schemes, such hopes would not have found them so easy dupes. As the present writer pointed out at the time,[4] it was wholly unreasonable to expect that working for a district would ever operate as a motive to effort. The truth is that the further we move from a direct, individual incentive the feebler becomes the response. The degree of stimulus offered to any individual worker by the coal agreements may be faithfully stated by considering its appeal to an individual hewer, say, John Smith, in the Eastern District. He would soliloquise thus: "Shall I work harder, because, if I do, and if all the other men at my pit work harder, and if all the men at the other 600 pits work harder, and if trade is good and the managements efficient, and if I am not dismissed, I will get a 1/300,000 part, some months hence, of 83 per cent. of any surplus proceeds, if there be any surplus proceeds to divide?" If John Smith decides in the negative, who can blame him? We

[1] See Minutes of Evidence of the Sankey Commission, Vol. II, p. 830, Question 20,070.

[2] *Idem*, p. 850, Question 20,569.

[3] The appropriate figures are given in the Report of the Samuel Commission, Vol. III. (Appendices and Index), p. 3. A consideration of the Output Problem in some detail will be found in Chap. xi. of Vol. I. of the same Report.

[4] See article in the ECONOMIC JOURNAL, December 1922.

know that the effectiveness of any proceeds-sharing scheme is in inverse ratio to the size of the participating group, and it was absolute nonsense to speak of the agreements as supplying a " direct incentive " to individual effort.

It is perhaps hardly necessary to say that the wage agreements have had no appreciable effects on industrial relations. Mr. Lloyd George, when ushering in the 1921 agreement, affected to believe that it would ensure peace " for a very long period in the coalfields," and " open a new era of co-operation in the industry." That it has not done so is sufficiently obvious. Nor does it seem to have reduced the number of pit or local stoppages. For the nineteen years, 1900 to 1918 inclusive, the total number of local disputes in coal-mining which resulted in stoppages was 2542, or an average of 134 per annum. In the four years during which the agreements have been intermittently in operation, the following are the statistics : –

Year.	Number of Local Stoppages.	Number of Work-people involved.	Aggregate duration in Working days.
1922	155	116,000	1,246,000
1923	186	187,000	1,183,000
1924	190	134,000	1,563,000
1925	162	129,000	3,450,000

To sum up, the new method of wage adjustment, while it has falsified the prophecies of its promoters, has yet, it would seem, justified itself on other grounds. It was hailed, not only in this country, but by expert observers abroad,[1] as a landmark to better relations between employers and employed. There is no evidence that it has borne fruit in this direction, for it has neither reduced the frequency of industrial disputes nor has it provided any incentive to increased output. Its cardinal merit has been its contribution to the regularising of employment. It was a pioneer, and by no means a perfect, attempt to adjust wages automatically and scientifically to industrial prosperity. Wages were thus, as long as they remained above the minimum, always within the capacity of the industry to bear them, and their payment imposed no burden or brake on industrial expansion. Hence it was, taking the country as a whole, that during 1922 the number of unemployed miners fell from 10·4 per cent. in January to 4·6 per cent. in December, and to only 2·4 per cent. in December 1923,

[1] See, for instance, the Final Report of the United States Coal Commission of 1922–3, p. 274.

but increased again, when the payment of the higher minimum rates taxed the resources of the industry, to 7·9 per cent. in December 1924, and to 25 per cent. in the middle of 1925.

In the pioneer task of dividing the proceeds of industry between capital and labour it is not surprising that there should have been bickerings. What is surprising is that the new principle, as distinct from the details of its embodiment, should have survived the embittered relations of the two parties, and should not only have escaped censure, but should actually have earned their commendation. After all, it was no more than an attempt to do by due process of accounting, what in all wage negotiations must be done, but is usually left to ignorant higgling and erratic guesswork. It introduced, for the first time, the practice of measuring exactly and ascertaining impartially the proceeds of an industry, and it would seem certain that in the near future other industries will be compelled by the pressure of wage claims, and the necessity of appealing to the public mind, to follow the example so inadequately set by the coal industry.

J. A. Bowie

College of Technology,
Manchester.

ECONOMIC FACTORS IN THE CHANGING DISTRIBUTION OF POPULATION BETWEEN URBAN CENTRES AND RURAL AREAS

EXCEPT perhaps in the time of the Greek city states, it is doubtful whether so large a proportion of people has ever lived in towns as now in a number of countries occupied by western Europeans whether in Europe itself or in the newly settled continents. The drift of population towards towns, or rather the more rapid growth of urban populations than of rural, most marked in highly industrialised countries, is to some extent a world-wide feature, least marked, on the other hand, in the mainly agricultural countries of the slow-moving East. Were this process confined to manufacturing areas and countries, the explanation would be fairly simple, and comments on the relative decline of rural populations would revolve round the question of how far it is expedient for a country to specialise in those types of industry that it finds most remunerative, and the choice of the places it finds most convenient for conducting them. The facts, however, show that some of the most exclusively agricultural countries, such as Argentina and New Zealand, that export scarcely any manufactured goods and are continually supplying ever-increasing quantities of farm produce to outside markets, are adding to their urban populations at a considerably faster rate than to their rural. This is apparent from the table below showing the officially recorded percentage ratios of rural population to the total population at various dates in certain selected countries.

	1881.	1891.	1901.	1911.	1921.
England and Wales	32·1	28·0	23·0	21·9	20·7
Canada		68·3	62·6	54·6	50·5
Australian Commonwealth				42·0	37·5
New Zealand	62·34	61·16	60·87	57·07	51·23
	1880.	1890.	1900.	1910.	1920.
United States	71·4	64·6	60·0	51·2	48·6
		1895.		1914.	
Argentina		57·2		42·6	

In view of the above figures, it has to be recognised that forces are at work in economically advanced countries, making it possible for their agricultural industries to be carried on with a relatively declining personnel resident in rural districts. The factors that contribute to this result are apparently rather complex in their working, and it seems worth while to attempt to analyse them and to consider their mode of operation.

It is often said, and with much truth, that Europeans, especially in new countries, prefer town life to country life. There is a certain restlessness in the western European and in his descendants in North America and the Southern Hemisphere which impels him and them to seek the more varied forms of mental stimulation available in towns, where the opportunities in life are usually ampler and more numerous. A close connection exists between this restlessness and the enterprising spirit that has enabled these people to accomplish so much in the world in a comparatively short space of time. At all events, pressure is constantly being exerted among western European peoples to shift population from the country districts townwards; those who remain behind are such as have no aptitudes for, or opportunities of following urban callings, or have prospects in the country through succession to farms and rural businesses, far brighter than any possible for them in the towns. In manufacturing and even in agricultural countries also many are drawn to the towns without much initiative on their own part, simply because there they find more abundant, regular or better-paid employment. For reasons that will be examined in detail later, successful industries and forms of mercantile business become established and grow in urban centres, and a strong economic pull is set up to bring in more or less ordinary people as wage-earners. The figures in the table above seem to show that the tide is in full progress in a number of countries. Thus, with some striking exceptions, agricultural districts in the Western world continue to exist rather than to flourish. The vigorous developments of the age leave them on one side, are shaped elsewhere and in a form in which those districts have to acquiesce without serious previous consultation. Having ceased to offer attractions as a permanent place of residence for the keener-witted in this restless age, the countryside is being left by the class of people possessed of means as landowners who in England and elsewhere in a previous generation established homes and lived there, giving it some independent intellectual and political impulse.

Prime Causes of the Changing Distribution

The decline in the last fifty years in the ratio of the rural-dwelling to the total population in a number of countries is to some extent, but not entirely, a measure of the increase in agricultural productiveness per unit of farm labour during the period. This statement is subject to some important qualifications, but we may deal first with the broad generalisation itself. The rate of progress in the saving of labour required to furnish given units of farm produce has varied enormously during the period both from one country to another and also from one kind of produce to another. It appears that this type of human gain has been greatest in grain-growing in new countries, and least perhaps in certain types of small-scale mixed farming in old countries. It is said that in America the 2 hours and 13 minutes' labour required to produce a bushel of wheat in 1833 had by 1904 fallen to 10 minutes. This is by no means typical of the progress in farming as a whole even in new countries, nor does it, of course, make any allowance for the increased labour costs in the interval involved both directly and indirectly in getting the produce to the consumer. Nevertheless, through improvements that have affected special types of farming, the general progress in the agricultural industry, and the redistribution of differing types of farming according to suitability of soil and climate, there has undoubtedly been a steady reduction in labour time required per unit of produce obtained over large sections of the farm operations involved in supplying food and certain raw materials for the Western world. This is borne out by the fact that in addition to the decline in the ratios of rural populations, less is now contributed in the way of assistance in actual farm operations by women and children, in English-speaking countries at all events, than was so contributed fifty or even twenty-five years ago.

In the absence of intentionally prohibitive tariffs on agricultural produce, the prices of such produce throughout the countries that consume it obviously tend to a more or less uniform level, after allowance has been made for any transportation and other costs involved. Thus, when during the last half-century large quantities of a given kind of produce, for example, of wheat grown in the New World, have been forthcoming at a smaller expenditure of labour per unit than was necessary elsewhere before, the advantage has tended to be shared by all countries participating in the international market for that product; for in spite of increases in population the result has been a fall in price levels

which has caused production to withdraw from those marginal areas where the labour costs were formerly highest per unit. In other words, unless agriculture has been protected by very high tariffs on imported produce, land has tended under competition to go out of cultivation and labour to be displaced in all such earlier settled areas specialising in the product in question, that have not been able to devise means of reducing their costs of production, or to find some other kind of farming in which for one reason or another competition has been less severe. In any case, agriculture in these areas has seldom been able to absorb an increased labour force.

It is obvious that changes of the kind just described have been highly favourable to the establishment and growth of manufacturing industries in the older and more densely populated areas. Labour there has been set free that was formerly immobilised in agriculture or ear-marked for the expansion of that industry; nominal wage rates have tended to fall owing to the cheapening of necessities and to the declining rate of demand for labour in the agricultural industry; and such areas, if within reach of cheap fuel, could utilise the advantages of the whole changing situation in supplying their manufactures to the new agricultural areas abroad, too busy for the time being with the opening up of farm lands to think of furnishing much of their requirements in manufactures themselves. Even those older countries, such as Germany, that followed the policy of raising the prices of the floods of cheap agricultural produce at their gates by means of heavy duties, reaped indirect advantages. The proceeds of the duties went in relief of taxation which otherwise would have fallen with heavier burdens upon the growing manufacturing industries. These protective countries were able, in fact, to afford relief and even to give direct assistance to manufacturers out of the difference, collected by their customs, between internal supply prices and the lower world-prices of many kinds of farm produce. At the same time the existence of this serious potential foreign competition behind the tariff wall made it expedient for the farmers in such countries to utilise to the utmost any economies in production within their reach or to redistribute the attention they gave to different products so as to specialise more in those in which foreign competition was least threatening.

To sum up the position reached at this stage of the discussion: it appears that throughout the western European world as a whole, forces came into operation during the later nineteenth century and continued at work in the early twentieth, that made for a reduc-

tion greater than any in previous times, in the proportion of the total disposable labour force required for agriculture; there was a consequent and more than corresponding increase in the supply of human energy available for manufacturing or other pursuits, and thus the growth of towns first became rapid throughout the modern world in general.

We have next to observe how the process of rapid urbanisation, once set in motion, gathered force and has continued unabated in spite of a probable slackening off recently in the rate of the reduction in the labour costs of agricultural production. It is necessary at this stage to distinguish clearly three sets of costs as applicable to farm produce. In the first place, there is the net farm cost in the form of payment for seeds and fertilisers and for the labour and other incidental services rendered in the process of production; secondly, there is the gross farm cost, which includes in addition to charges for human services an allowance for equipment and other capital employed; and thirdly, there is the final cost of the produce as delivered to the consumer, which includes all further charges above those ex-farm due for the services of transportation and elaboration. The essential features in the development of the last half-century and more has been this, that while the net cost at the farm in the form of human services there rendered has declined remarkably and is probably still declining slowly, a steadily increasing proportion of the final, even if reduced, cost to the consumer has gone in remuneration for the other charges, namely, those for supplying farm equipment and for the services of transportation, marketing and elaboration. Further, there has been a steady migration of the industries responsible for these latter factors from the country districts to the towns.

The causes above outlined would have been sufficient of themselves to produce some concentration in the towns, but an explanation for the rapid and sustained nature of that concentration must be sought in the cumulative working of the contributive forces. We may begin with the broadest feature of the movement. As an increasing proportion of the labouring and directive forces was released from agriculture in older potential manufacturing regions with the advent of cheap farm produce from the newly-developed areas, those older regions were in a position to devote increasing attention to the manufacture of transport material and farm and other equipment for the further development of new lands. The latter in their turn provided further increased supplies of cheap food and raw materials which intensified the changes already in

progress in the older regions; and so on indefinitely within the limits set by the area and the unexhausted natural fertility of the new lands. Similarly also, within the borders of a given country, any increase in the use of machinery in agriculture tends to add to urban populations and to diminish the rural through the increased employment for mechanics in engineering industries in towns and the diminished demand for agricultural labour to produce a given volume of farm produce. The development of railways and other modern means of transportation not only renders possible the exchange of farm produce against manufactures upon which the increased use of farm machinery depends, not only creates increased employment in towns for the production of transport material and rolling-stock, while it diminishes the demand for the services of wheelwrights and blacksmiths in the country, but also tends to lead to the concentration of transport employees in towns whence the routes radiate. When the average haul was short as in the old pre-railway village days, the waggoner had his headquarters in the farming districts, while with the longer average haul and speedier movements of modern times, the railway employee and the motor-lorry driver have their homes and their headquarters in the towns.

Perhaps the most striking way, however, in which urban populations have grown within their national borders at the expense of rural populations is through the widespread transference from the countryside to the towns of industries connected with the preparation of food, the working of timber, the making of leather and so on. This transference is still in progress. The milling of cereals, the conversion of animals into meat, the manufacture of butter and its substitutes, of jams and various other food-stuffs, are now more or less centred in towns even in new countries such as the United States and Australia. The tendency is, indeed, to push this transference to the point of providing not only for urban needs from these factories, but also for those of the surrounding country districts as well. In the extreme case the farmer produces simply the raw material in the form of wheat, live animals and milk, and obtains his supplies of flour and bread, of meat (especially bacon) and of butter from a near or distant town. Local rural industries for the elaboration of food and home industries of the same nature are alike in a state of eclipse in wide areas of the Western world. The cumulative operation of the processes of redistribution of population is very marked here: with the concentration of the elaborative industries and the centralisation of their markets in the towns, these industries have

been able to utilise machinery and other large-scale economies, and these have given them further competitive advantages against their country rivals.

Moreover, as the proportionate need for persons engaged in the staple rural industries has declined, there has been a corresponding relative smaller amount of employment for persons engaged in supplying personal services and such wants as can best or can only be met locally—for servants, teachers, grocers and the like. The numbers of such people may grow apace in the towns, but tend to be stationary or to diminish in many rural areas. We shall note later the manner in which towns seem to contrive to absorb an even greater proportion of the increase of wealth than they do of the population, and this gives them an added advantage in competing for all kinds of personal or subsidiary services and of attracting from the country districts those capable of rendering them.

Gross and Net Gains in Reduced Labour Costs

The gain in the productiveness of agricultural labour is by no means necessarily a permanent thing, and, as suggested above, may already be slackening its pace. What has happened is that the opening up of new agricultural regions together larger than Europe, by certain sections of the white race furnished with the instruments of mechanical and agricultural science, has reduced the share represented by labour among the factors of production that those sections (and other parts of the human race indirectly) have had to contribute in agriculture. Nature for the time being was prepared to do more, and was enabled to do so because the dependent consuming population, though it increased rapidly, did not increase as rapidly as new regions were opened.

Further, proper weight must be given to the factors that contribute to the result that the gain in the productiveness of agricultural labour has been less than the increase in the proportion of the urban, or the decline in the proportion of the rural, to the entire populations. In order to arrive at the net gain, we have to set as deductions against the apparent gross gain three features already noticed as causatively connected with the recent growth of towns; namely, the widespread transference of certain industries from the country districts to the towns, the greatly increased labour both for the making of transport material and for the work of transportation itself in the modern system of moving agricultural produce in great quantities and over long distances, and the very considerable labour employed in towns in the manufacture of

machinery that has displaced manual work in the countryside; and in addition to these, the notable increase of supplies from the tropical regions. This last is important, since it seems that many more people now live in the towns in temperate regions producing goods for which they are able to exchange the products of tropical soils. The above four groups of deductions that have to be made take no account of the large number of persons, often highly remunerated, that are engaged in commerce in the towns merely in the work of carrying out the greatly increased number of exchanges of goods that the transformation in the economic system has involved. It is unfortunately impossible to measure quantitatively either the gross gain or the amounts that have to be subtracted in order to arrive at the net gain. That the latter has been continuous and in the aggregate considerable there is little doubt, but it has clearly not been as great as might at first be supposed.

Economic Domination on the Part of the Towns

The social results of this redistribution of population are evident enough. Urban populations in a number of countries have gained both economic and political strength out of all proportion to that in their hands half a century ago. The democratic systems of government of the modern world favour the concentration of effective power in the towns, which in any case enjoy strategic advantages in economic bargaining. The material attractions that towns have to offer are real enough for those who have the capacity to take advantage of them. The best brains of each country or region thus gravitate to the urban centres, and every accession of talent gained by these centres from the adjoining country districts increases the economic power in the hands of the townspeople while it diminishes both the productive and the bargaining power in the agricultural districts. The net result is that the greater part of the material gains that machinery and modern developments have brought to the Western world in reducing the labour required in agricultural production has accrued to the towns. The balance of the gains has gone for the most to the owners of farming land *quâ* owners, who on realising the increment frequently move to the towns, taking the command of wealth so gained with them. Agriculture remains on the whole a poorly paid occupation compared with commerce, manufacturing and finance, except perhaps in a few countries such as Denmark and New Zealand, where the national intelligence is concentrated on agriculture rather than on urban indus-

tries. It would almost appear that in a number of countries farmers are out-manœuvred all along the line—in command of capital and finance, in the drafting of tariffs, in collective bargaining, in the marketing of their produce; that as a consequence agricultural industries are forced to work for less than their due while the town-dwellers get more than their share.

This will continue as long as the supplies of agricultural produce are maintained in reasonable abundance either by the addition of new sources in the tropics or elsewhere, or by the more intensive development of recently opened temperate regions, or by the application of improvements that increase the productivity of agriculture as a whole. Whether it will continue indefinitely depends mainly upon the future rate of increase in the populations of Western Europe, of North America and of the regions in the Southern Hemisphere occupied by Europeans. Among large sections of these populations the preservation of the standard of living appears to be a more important consideration than continued marked increases in their numbers; and this feature is more pronounced in the towns than in the purely agricultural areas. Increasing urbanisation seems, in fact, to be accompanied by a tendency towards a stationary or even a declining figure for the populations of whole countries within the western European world. If, however, the great consuming populations for agricultural produce fail to increase, or increase only very slowly, white agricultural populations will never regain a strong economic position arising from a relative scarcity of what they have to sell, so long as the great temperate regions remain in the hands of the races and peoples now occupying them. Farming may in some ways be a skilled calling, but with the advance of agricultural science and the accumulation and funding of experience it is becoming less so. The days of pioneer farming, which called for special qualities of character and in which increases in land values formed a substantial part of the return for the labour and hardships, are passing away; as long as the birth-rates in rural areas remain higher than those of the towns, as long as foodstuffs and fibres are obtained by industrial populations indifferently from the temperate regions farmed by Europeans or from the tropics and other parts of the world occupied by coloured peoples, there is little likelihood of farm labourers and farmers becoming sufficiently scarce to force up their rates of remuneration very much in any white man's country.

E. W. Shanahan

CROP-FORECASTING IN ENGLAND

THE numerous factors affecting yields have been enumerated in a previous article (ECONOMIC JOURNAL, September 1926), where reference was made to the difficulties inherent to estimation even of gathered crops, and the fallibility of the human machine, when engaged in combining varied rates of productivity, was stressed. Yet it would seem that the still more hazardous process represented by forecasting yields is, in certain quarters, regarded as merely dependent upon mathematical calculations. Thus, Professor L. W. Lyde, writing upon the subject of "Russian Wheat Supplies,"[1] has said: "For instance, in England the Shaw formula, even when not checked by the 'Rothamsted' formula, is remarkably trustworthy. It computes the yield by subtracting from a *datum* of 39·5 bushels per acre a maximum of about 79 lbs. for each inch of rain that has fallen during the thirteen weeks of September, October and November, and the actual results show an astonishing agreement with the subsequent yield as given in the official returns. Why? Because we *know* that the 'extra' rain prevents, or even postpones until spring, the proper preparation of the land, and it restricts root development. And we can put definite values on the various factors and make the necessary additions or subtractions. Indeed one may say to-day with little fear of confusion that the yield of wheat in England next autumn will be certainly *circa* 33 (39·5 – 6·3) bushels." [Actually the recorded yield was 29·6 bushels.—J. A. V.] Here we find associated with the whole of England, a formula tentatively put forward by Sir Napier Shaw twenty years ago as mainly applicable to East Anglia. This method neglects variations in the local distribution and times of precipitation, ignores all reference to climatic happenings from January to July, and, moreover, assumes that effects upon clay, fen and breck-land soils are similar. It affords an interesting pursuit retrospectively to investigate on these lines the yields of past years, but although certain limited areas and some seasons may bear out anticipations, it is impossible thus to dogmatise upon results. The writings of anyone versed both in meteorology and in agricultural statistics, such as those of R. H. Hooker, *e.g.* "Forecasting the Crops from the Weather" (Presidential

[1] *Times*, January 4, 1926.

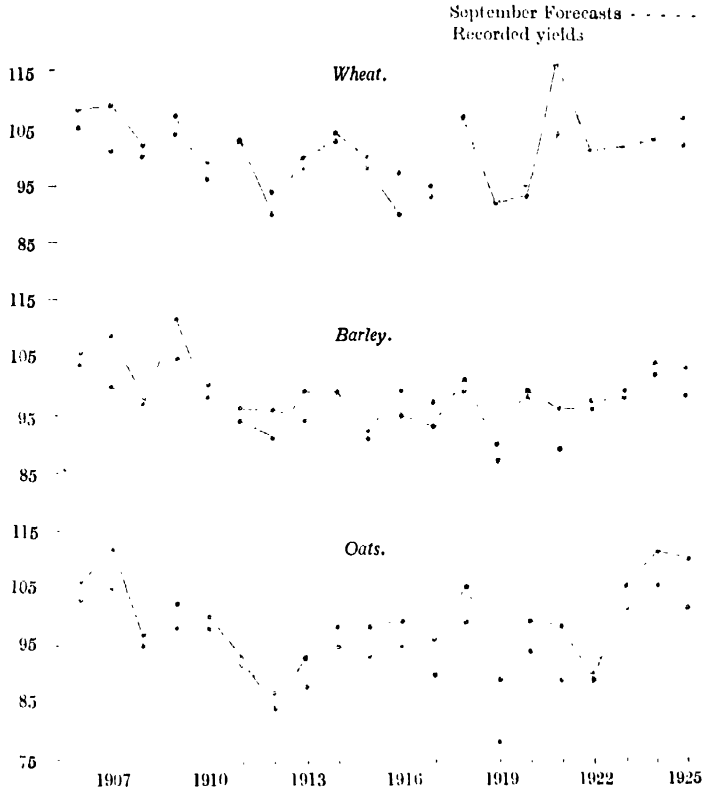
Address, Royal Meteorological Society, 1921), afford a timely warning as to the limitations attaching to these inquiries. The best that can be said for them may be summed up in Hooker's own words: "I do not suggest that predictions should be based solely on statistical records of the past weather. But I do suggest that these records must not be ignored. It is abundantly clear that the weather plays a part, invisible to the eye, in the internal structure of a plant that can be measured by such statistics: something, we may say, goes on inside the plant which is not recognised by an observer in the field, and which only exhibits its matured effect in the ripe crop. It is quite obvious that these numerical records must be worked up and the results taken into serious consideration, and used in conjunction with other facts, such as those learned by actual observation in the fields, for foretelling the future harvest." There we must leave these theoretical methods, putting beside them those much more venturesome long-term forecasts based on apparent cycles in production, which, from time to time, cause no little stir, for we are here concerned with existing practices and possibilities.

The Board of Agriculture inaugurated, in 1906, a system of forecasting probable yields of staple crops, based upon their condition at monthly intervals. Four statements are issued, which, up to 1922, recorded as percentages of 100 ("an average crop") their appearance on the first day of July, of August, of September, and of October (upon occasion, and for certain products); subsequently the basis was altered to actual yields in terms of bushels and hundredweights. These figures are, in the first instance, prepared by the Crop Reporters, and then amalgamated in the usual manner by the headquarters staff so as to be applicable to the whole country. It is here not necessary to classify in advance the respective values of each monthly forecast, but it may be stated that for most crops each report tends to approach nearer to the "actual" yield ultimately recorded, but many aberrations are necessarily found, and on occasion the trend is in the opposite direction, *e.g.* in 1916 Barley figures ran thus: 95, 97, 99, while the yield was represented by 95. In the case of such a fickle crop as roots, forecasts made two or three months in advance possess little value, and only the last can generally be accepted as a serious contribution to the farming situation.

The following comments relate to an inquiry made into the accuracy of the last forecasts (*i.e.* September in the case of cereals, and October in that of roots) when compared with the yields

subsequently reported. In general, they exhibit features common to such estimates whensoever made, and relating to whatsoever crops, viz. they tend seriously to under-estimate yields. For example, H. L. Moore, in *Forecasting the Yield and the Price of Cotton*, devotes much space to this subject, and is satisfied that forecasts of the United States Department of Agriculture possess "inherent defects that lead to an under-estimate of the yield per acre. The official method of forecasting, if applied to the data referring to the condition of the crop during a period of twenty-five years, gives a predicted yield per acre, which is an under-estimate 19 times when based upon the May condition, 16 times when based upon the June condition; 15 times in July; 16 in August, 15 in September." We, in this country, are not concerned with divergencies from that American entity—or fiction—"the normal crop," which is "*not* represented by an average condition, but a condition *above* the average, giving promise of *more* than an average crop"; neither is it a perfect crop, for "the normal represents something less than this, and thus comes between the average and the possible maximum" (Official Instruction, U.S.A. Department of Agriculture). Fortunately the forecasts for England and Wales have taken as their basis the "ten-year average" crop, and are expressed as percentages of this figure; a recent development has comprised the issuing of statements of probable total out-turn, based on the ascertained acreage multiplied by estimated rates of yield. For the three principal cereals it will be seen (in the diagram opposite) that the last forecasts, made at a time when harvest is in full swing everywhere, and often actually completed in the southern and eastern counties, (*a*) tend seriously to understate the position, and (*b*) generally fail to anticipate an above average return. Thus, the very dry season of 1921 completely misled the Reporters, who did not recognise it as providing an abnormal crop of Wheat (doubtless under-stated at 116), but suggested as appropriate figures of 100, 101, and, finally, of 104, and at the same time forecasted the Barley crop as 89, against results of 96. It is typical of their outlook that even the September forecasts failed to appreciate the situation, the majority of Wheat reports recording "average," "slightly above average," or at best indicating a figure of 105 as applicable. All students of agriculture are familiar with such statements as the following, which emanate only too frequently from those connected with the land: "the worst harvest I have ever experienced," "results will be even worse than in 1879"; if these assertions are subsequently

compared with the same speakers' reports, based on the yields of the threshing machine, their biassed nature is apparent. Is it likely that local officials are entirely free from such tendencies? Deep-rooted motives, such as a desire to minimise a crop in order to enhance its financial value, can, of course, in this country, be



put out of court. Psychology and conservatism alone appear responsible.

There is little to choose between the accuracy attained in forecasts of Wheat and Barley, save that the second, or August, forecasts of the latter have actually been inferior to those issued in July. Oats clearly afford the worst results, since only upon two occasions in twenty years were September estimates above the final figures, whereas for Wheat this occurred six times, and for Barley on seven occasions. It would not appear that the comparative dates of commencement, or the subsequent duration,

of harvest have influenced these results, for inquiry has failed to trace any connection therewith. There is no evidence to suggest that the margin of error in forecasting cereal crops has improved during the twenty years they have been prepared, although the dates of issue have themselves been retarded; in any event September "forecasts" can generally be based on a proportion of actual weighings, and should be correspondingly facilitated. As comparisons are effected with the ten-year averages, and Crop Reporters consistently fail to anticipate yields equivalent to these figures, which are the outcome of their own judgment, and have themselves been declining during the two decades under review, it would seem that progress is barred, and further diminution in official yields may possibly be expected. For example, on only six occasions in the twenty years has the ascertained yield of Barley been recorded as above the average, and eight times was this the case with Oats. Reporters are bound to be affected by their previous forecasts, and hence reluctant to acknowledge improvement. Since lack of space precludes any separate diagrammatic representation, the following table has been substituted, which well demonstrates the universal character of the tendencies referred to above, the principal crops subject to preliminary estimates being ranged in the order of their accuracy as revealed by the final forecasts.

	Mean Error (%). (Sign ignored.)		
	July.	August.	September.
Wheat	4·4	3·8	2·8
Barley	4·3	4·5	3·3
Meadow Hay	4·8	3·7	—
Oats	5·1	5·3	4·9
Mangolds	4·5	5·7	5·6
Potatoes	7·1	5·6	6·3
Beans	8·2	7·6	6·5
Peas	8·2	9·3	7·6

It will be observed that the degree of accuracy secured in cereal estimates as between July and August is very similar, but in three cases (Barley, Oats and Peas) the passage of a month results in wider errors appearing. The last forecasts for Mangolds are worse than the first, the third for Potatoes inferior to the second, but root crops are particularly subject to the onslaughts of pests and disease, so that such results are not unexpected. The pessimistic views of the Crop Reporters can best be illustrated

by analysing the number of times in the series of twenty years that a below average crop was anticipated at the final forecast, when the following data are obtained—Wheat 7 times; Barley 15 times; Oats 15 times; Beans 9 times (in thirteen years); Peas 13 times (in thirteen years); Potatoes 13 times; Mangolds 11 times; Meadow Hay 9 times (in nineteen years). Out of a total of 125 final forecasts, 101 were put below average, 20 above, and 4 coincided with that figure. This bias is accentuated when it is remembered, firstly, that the ten-year average was, for six crops out of the eight, not merely stationary, but lower at the end of the period than at its commencement, and, secondly, that the margin by which estimates fell below the average greatly exceeded that by which they more rarely exceeded it.

It is unfortunate that strictly comparable forecasts are not issued by any independent body, so that it might be possible to place the official series side by side with extraneously prepared estimates, as was effected in the case of recorded yields. The *Times*, however, compiles preliminary statements early in the months of July, August and September, in which the condition of crops is recorded in percentages, where 100 equals " a healthy and average growth and development for the time of year." This figure, being somewhat akin to the United States " normal," its main function is to provide an indication as to whether improvement or deterioration is registered at each monthly interval, but a close examination of the final, or September series, extending over the same period of years (1906-1925) as covered by the Ministry's forecasts, provides evidence that they are at least free from any bias and, further, are in harmony with the *Times* statements relating to final yields. Thus, for the six crops represented by Wheat, Barley, Oats, Beans, Potatoes, Roots (" Turnips and Mangolds "), the September statement of condition indicated returns above the average on 73 occasions, below it 45 times, and equal to it twice. Incidentally, proof of the steadiness of the final figures themselves is forthcoming when it is recorded that on 64 occasions these " actual " yields worked out as above the ten-year average of their precursors, and 56 times were below it.

Grounds have previously been given for the belief that yields are not quite as low as the official figures suggest, and it now transpires that the official forecasts too often fail to attain the modest level occupied by the latter. Admittedly, the task set the local officials is a difficult one, but again it would seem that extreme conservatism is hampering their decisions. In this

particular work no methods of precision can avail, and all that can be suggested is that the tendencies recorded above should be brought to the notice of Crop Reporters, and, in addition, that, prior to harvest, reminders might be issued that below average forecasts of yield would not be accepted unless based upon irrefutable evidence.

J. A. VENN

School of Agriculture,
Cambridge.

A HISTORY OF BARCLAYS BANK

History of Barclays Bank, Limited, including the many Private and Joint Stock Banks amalgamated and affiliated with it. Compiled by P. W. MATTHEWS, Chief Inspector of the Bankers' Clearing House (1900–1920). Edited by ANTHONY W. TUKE, Local Director of Barclays Bank. (Blades, East and Blades, Ltd. 1926. Pp. xiv + 441. 4to.).

THIRTY-FIVE years ago there was no more obscure subject in English economic history than the growth and operations of the country bankers and their London agents. It was practically an unwritten chapter in the history of modern banking; and even to-day, as these banks were under no sort of regulation, and essentially private banks, we lack the necessary statistical basis for a scientific account of them. After 1896, Martin's *History of the Grasshopper*, followed by Hilton Price's *London Bankers*, Maberley Phillips' *Banking in the North of England*, Cave's *Banking in Bristol*, with other sketches of less pretension, first threw really valuable light, either on the country banks themselves, or, what is even more significant in view of later developments, on the relation of these country banks to their London agents.

We now have a most important addition to our resources. This History of Barclays Bank gives us the first comprehensive account of one of our great clearing banks from its earliest beginnings to its huge modern issue as one of the largest banks in the world. The economist Storch said in 1815 that Great Britain was the only country in Europe in which there were any private banks. The statement requires qualification; but there is certainly no other country in which such private firms, half-bankers and half traders, can be more profitably studied, or have given rise to such remarkable developments. Nor is there any English bank better suited through all the stages of its long history than Barclays to illustrate the most characteristic features of those developments. A preliminary glance at the outlines of our banking history may serve to show the special value of such a contribution as this volume can make to it.

Our first bankers, the goldsmiths, like the Bank of England, which afterwards absorbed a good deal of their business, were

London bankers, well able to cater for London needs. But the country districts of England were practically destitute of banking facilities. Burke said that when he came to England in 1750 there were not twelve banks outside London; and these, no doubt, were of the most primitive type. The country clamoured for means of remittance. This has always been the first origin of the rise of banking, as opposed to mere money-lending, or the discount of bills. The Bank of England, unlike the Bank of France, never has had any effective branch business, and could not supply the desired facilities. They were first provided by successful traders in the country, who had correspondents in London, and gradually admitted local friends to share their opportunities of remittance. Later, as the demand increased, a charge was made for this service, and the work became so profitable that the country merchant gradually dropped the trading side of his business and became a banker pure and simple. For many reasons, English financial operations have always, and more than in any other country, tended to centre in the metropolis. Hence the country bankers were soon obliged to obtain regular banking agents in London. For this purpose they used the descendants of the goldsmith bankers, mainly grouped in Lombard Street and its vicinity, but to be found as far west as Temple Bar and even beyond. English trade was making rapid progress, especially in its foreign relations; and what a country merchant wanted, when discounting a bill with his banker, was not cash, in the form of coin or notes, but a safe and easy means of making and receiving payment in London. The country banker, by drawing on his London agent, furnished a convenient London currency, which made such transactions possible without transport of cash. Before the close of the eighteenth century there were some 500 of these country bankers, with some 50 London banks, a dozen of whom did most of the agency work; and the drafts of the country banks on London had become the most convenient form of mercantile "cash" for internal purposes.

English merchants abroad gradually developed into bankers in much the same fashion; so that a century later, the bill on London had become, what it still remains, the most valued form of international currency. Thus first the country bankers, and then the merchant bankers abroad, created the famous bill on London, which by the punctuality of payment of their London agents ultimately obtained world-wide repute. But there was a further development which did even more than punctuality of payment to give the London bill its present unrivalled position.

This was the rise of the bill-brokers and the London bill market. They provided facilities of discount nowhere else obtainable, so that the owner of a first-class London bill is not only certain of due payment, but can at any moment command cash.

All these features of English banking history, *except* the rise of the bill-brokers and the bill market, find copious illustration in the volume under review; and the later history, dealing with the rise of joint-stock banking in England, limited liability, and the great banking amalgamations after 1915, is adequately sketched.

This later history, especially after 1875, is a history of amalgamations, with the general result of which the public are pretty familiar. But what deserves the special notice of students of banking is the form, in several respects quite peculiar, which amalgamation has taken in the case of Barclays bank. The nucleus of the combination consisted of two great firms united in 1888; Barclay, Bevan, Tritton & Co., and Ransom, Bouverie & Co.; each of them London agents of a number of country banks; and their first amalgamation of 1896, a most natural one, was a union with some twenty of these country banks, in which the Gurneys of Norwich and Backhouse of Darlington figured most actively. From time to time after 1896 there were many similar unions with local banks, especially in districts where the bank was not previously represented. Finally, after 1915, Barclays joined in the general movement for concentration on a far larger scale, and amalgamated with large centralised branch-banks of a different type. In the end it has become the third in size of our Big Five clearing banks, with deposits of over £300 millions, and 1838 bank offices.

Big banks are obviously necessary in these days of colossal business firms. But the new system, in banking as in industry, brings with it new difficulties. It makes the personal contact of lender and borrower almost impossible, and tends to substitute inelastic "head office rules" for the unfettered discretion and intimate personal knowledge of the old owner-managers of the private banks. It is difficult too, in the big centralised bank to provide adequate opportunities for the training of men who must be found to fill the highest and most exacting administrative positions.

Barclays from the first, as this History shows, adopted a policy expressly intended to lessen these difficulties. It tried to preserve the individuality of the amalgamated banks by creating Local Directors and local administrative districts, and, further, by

inviting representative partners of the absorbed banks to sit as directors on the London Board. In this policy they have (perhaps unconsciously) closely followed the lines laid down, a century ago, by William Joplin, the great apostle of Joint-stock Banking in England.

The system seems to work very well. At any rate Barclays show no sign of going back on it, but are gradually extending the policy to include the branches of the large centralised banks amalgamated after 1915. The retention as directors of partners in the old banks has evidently been of service; for many of the highest positions in the amalgamated bank have been held by these men, and almost every member of their Board is a trained practical banker. There are now 33 local head offices, and no less than 38 directors on the General Board, most of them actively engaged in the local offices; besides 5 advisory directors, not necessarily bankers. It may be added that all the capital of the bank is fully paid up. It is not easy to see the value of uncalled capital as a bank asset; for in any serious emergency it is very doubtful whether it could be called in.

The greater part of the History, after these questions of general policy have been dealt with, is devoted to the history of the individual banks amalgamated. It contains a mass of interesting and sometimes romantic detail, largely personal and biographical. It abounds in character sketches and in matters of pedigree and relationship; and continual reference is made to such subjects as the religious sympathies of the earlier bankers, and especially to the influence of the Quakers in this banking group. In the course of the narrative the reader is introduced to a large number of the best known names in English banking: Alexander, Backhouse, Barclay of course, Bevan, Birkbeck, Bolitho, Bosanquet, Bouverie, Buxton, Eaton, Foster, Gosling, Gurneys, Hoare, Leatham, Lucas, Pease, Peckover, Seebohm, Tritton, Tuke, Williams and many others. If he happens to be a high-brow, he may find the personal element too prominent. But he should reflect that the prominence of personal relations and questions of character has always been a marked feature of English business, and goes far to explain the relatively small part played in it by collateral and other formal security, and the consequent ease and rapidity with which transactions are put through, matters constantly noticed by foreign observers.

It is nowhere more vital than when we are considering banking in its early stages, when success depended primarily on the power of furnishing means of remittance. In the case of the English country bankers, it was precisely their intimate relationships

and bonds of religious sympathy which furnished them with the necessary basis for business correspondence and banking co-operation : just as the Jews had secured it by their racial coherence and their curious corresponding societies which Milman has described for us. It is really astonishing how intimately the English banking families were inter-related. The writer was once shown by an English banker a very elaborate pedigree, some four feet square, on which he made out his descent from Sir John Houblon, the first Governor of the Bank of England. It further appeared from this tangled web of descents and marriages that he was also connected with almost every banking family one had heard of. This intimate and complicated relationship is fully illustrated in the book we are considering. It largely extends our printed record of such connections, and perhaps even more of those religious sympathies on which they were grounded. The Quakers have played a great part in English banking, nowhere more than in the Barclay group : the Huguenots may rank next; but a certain pietistic and mystical form of religious feeling seems to have characterised nearly all the original Barclay bankers. Remittance has now ceased to be a problem. The big branch banks and the universal currency of the cheque now provide us with a perfect system of payment; but in earlier times a system of correspondents was the first essential, and it is still interesting to see how our English banks obtained it.

The histories of individual banks are unequal in value, but reach a high average. Those of the Gosling and Gurney banks are particularly good; and Cambridge men will appreciate the record of Mortlocks, and the excellent portraits of its present head, and original founder. (By the way, many of the portraits are so good that one regrets to find the artist's name omitted.) In connection with the famous Gosling bank, it may be mentioned that St. John's College opened its first banking account with them in 1765; and this date may fairly mark the time when non-commercial people generally began to keep a banking account. Here is the reference from the College Conclusion Book. "5th July, 1765. Agreed that *Mr. Baker* pay the money which he receives for the use of the College into the hands of *Sir Francis Gosling & Company* as bankers for the College, and that the Master write to them to pay it to the drafts of the bursar." They also opened an account with Mortlocks in Cambridge; but they retained their account with Goslings in London till Goslings was merged into Barclays in 1896. Goslings had a crowd of distinguished customers, many of whose signatures are reproduced, and a large Indian connection which included Clive and Hastings. A cheque drawn

by Hastings is reproduced, also the oldest surviving cheque on Goslings, dated July 19, 1708; and their old pewter sign of the Three Squirrels "made in the early part of the seventeenth century." The cheques of the Gosling branch still bear this device. Some thousand of their ledgers from 1714 downwards, are preserved intact; a chance for some future researcher.

Mortlocks was the only one of the twenty banks which joined Barclays in 1896 which was not a private bank. It had become a limited company in 1889. Its treatment on amalgamation is a good example of the Barclay policy. The two principal directors Messrs. Parker and Mortlock, were at once made local directors at Cambridge, and Mr. Parker became a director of Barclays Bank. A Cambridgeshire district was soon formed, including Huntingdon, Saffron Walden, and Newmarket, supervised by the Cambridge local directors. Customers were hardly conscious of any change. Mr. Parker became Vice-Chairman of Barclays Bank in 1917, and retained this responsible position till 1925—a very trying period. A more influential and friendly connection with "Head Office" for the Cambridge customers could hardly be conceived.

The record of Bolitho's bank deserves notice as showing the very long-standing connection between Cornish banking and smelting. This bank issued Tin cheques, specimens of which are reproduced, in purchase of crude Black Tin, payable, after the smelting, in White Tin.

Limitations of space make it impossible to give an adequate idea of the wealth of incident and illustration in these annals; but one or two points may be noticed. The famous firm of Overend, Gurney & Co., is mentioned in connection with Gurneys Bank. The scandalous failure of this firm on May 11, 1866 (Black Friday), will be remembered by many persons, the present writer included, to the end of their days. The connection with the bank had been terminated two years before the failure of Overends. It is curious to hear that Mr. Joseph Peckover of the Fakenham bank told Mr. Daniel Gurney that people had deposited money with him and *paid* so much per cent. for its safe custody. The rate of interest was evidently negative at the time! The whole history of Gurneys, and the interlacing of the many distinct Gurney firms, is full of interest. Their most widely known representative was Sir Inglis Palgrave, F.R.S., long editor of the *Bankers' Magazine*, who also edited the *Dictionary of Political Economy*, and was our greatest authority on banking history and statistics. After Gurneys joined Barclays, he became a local director at the Yarmouth Head Office.

In the north of England the name of Pease will be remembered because he financed some of George Stephenson's early railway adventures. The Union Bank of Manchester, one of Barclays latest acquisitions, seems to have stated at its first start in 1836 that "it would act on a conviction of the impolicy of issuing notes." This view had often been adopted by Lancashire banks, and it would be interesting if the real reasons for this attitude were set forth. Wooten of Oxford, again, refused to go into the Country Clearing when Sir John Lubbock introduced it in 1858. No reason is given: it may be that their business was purely local or with their London agents. It is mentioned that the British Linen Company Bank admitted a woman as clerk as early as 1785, who remained in their service for thirty-one years. The war is not forgotten. We hear that two-thirds of the staff left for War service; and there is an illustration of the effects of a bomb which dropped on the Amiens office.

We might have wished to hear more of the changes in banking practice during the period covered by this long history, more particularly in regard to questions of note issue, and of the rise and influence of the bill market. What little we know of this last subject we owe to Sir Inglis Palgrave, who was also keenly interested in the question of note issue. But as Richardson, the great bill-broker, was related to the Pease family, and the Gurneys were connected with Overends, there should be some valuable traditions on the bill-market in the Barclay banks.

However, it would be unfair to criticise the authors for not going beyond the limits they have set themselves. We have rather to thank them for the admirable work they have done within those limits. Mr. Matthews was the best possible person to write the history of such a bank as Barclays. He had already given us the standard account of the Clearing House, in which he showed his complete grasp of the amalgamation movement: and he has had excellent opportunities, as a former member of their staff, of observing the growth of Barclays from within, and, as Chief Inspector of the Clearing, of estimating its relation to the banking system outside. We have had many valuable books on banking history in recent years, but the present work will be second to none for the purposes of the banking student, and it is throughout so enlivened by touches of character, incident and romance, so associated with famous English names, and so admirably illustrated with its 70 portraits, plates and reproductions, that it can hardly fail to be almost as attractive to the general reader.

H. S. FOXWELL

REVIEWS

Industrial Fluctuations. By A. C. Pigou, M.A., Professor of Political Economy in the University of Cambridge. (Macmillan & Co., Ltd. 1927. Pp. 397. 25*s*.)

If, as I frequently suspect, economic happenings can be very materially affected by what we know or think about them, a new work of this size from Professor Pigou bids fair to be in itself an economic event of some importance. For it is not to be expected that, with his unrivalled analytical powers, he would essay a long journey into this area of thought and accumulating experience without bringing back trophies worthy of his name and station. It is hardly too much to say that economics to-day is on its trial, in a popular sense, in the light it can throw upon, and the reforms it can suggest for, the greatest evil of our time—periodical fluctuations of industrial activity swinging to an extent far beyond the advantageous limits of novelty, rhythm or discontinuous progression. A vast quantity of work has been done in recent years on various aspects of the problem at home and abroad. Professor Pigou's book stands as a most authoritative and constructive critical review and summation of all that is most valuable in that work. In a first perusal, in odd snatches of busy days, I formed the impression that there was little that was novel or original—little, indeed, of formative importance—in his effort. But the more concentrated and continuous study afforded in a second reading, during the leisure of an ocean voyage, showed that this had been a superficial view, and revealed many original contributions of great importance and value to economic science and the elucidation of this problem.

Professor Pigou excluded from the second edition of his *Economics of Welfare* some 112 pages on the " Variability of the National Dividend," which became the germ of this work, and one of the chapters has also already been published in this Journal. But the work is substantially new in all its parts. Architecturally, its structure is admirable. At no point in its detailed digressions does one lose sense of one's position in the whole, or fail to realise the place of the contribution towards the complete purpose. Three-fifths of the work (Part I.) deals with Causation, and the remainder, carefully related in detail to

the first, with Remedies. Under Causation, the general characteristics of industrial fluctuations are sketched—their international range, their similarity, the synchronisation or lagging of types of industry. Then are discussed the impulses to fluctuation which arise from the variations in resources, and those which come from natural variations setting up varying expectations of profit—harvests, inventions, disputes, fashions, foreign demand. The extent to which the structure and productive delays of modern industry lend themselves to opportunity for errors of forecast, leads straight into the domain which is peculiarly Professor Pigou's own—the mutual generation of errors of optimism and errors of pessimism, and their cumulative aspects. The effects of elasticity in supply of floating capital (in two chapters) lead into the purely monetary aspects (in four more). Rigidity in wage rates and the imperfect mobility of labour round off "Causation," with final chapters on the comparative importance of various factors determining *amplitude*, which is everywhere regarded as a more vital question than mere periodicity or identification. In Part II. it is agreed that fluctuations, as such, are not necessarily evil, but that those produced in the ways indicated have generally a balance of disadvantage. Tabular standards for long contracts, bank credit policy, credit rationing *versus* discount policy, price stabilisation, and the gold standard and the supply of currency, complete the monetary treatment. Wage policy, making for stock, transference of orders from good to bad times, short time, overtime, relief work and insurance against unemployment are fully discussed. (The ending, while not banal, as in *Enoch Arden*, is perhaps hardly worthy of the work, since there was room for a summary survey and an expression of view as to the parts of the problem which still most require analysis, experiment and research, and of opinion as to the position of the final goal, instead of a " tailing-off " at a point the most remote in the whole book from the real problem itself.) Although the abnormal post-war conditions are designedly omitted from the analysis, which deals with pre-war experience, the author has in some places criticised and examined the statements and views of others which have been influenced or conditioned by more recent events. Indeed, it would be too much to expect that the searching tests of recent times should have no material influence on, for example, the chapter on " Stabilisation *versus* the Gold Standard." A fairly substantial part of the book—say, the first hundred pages (with a first check at p. 52) and some of the final chapters—might be followed by

the ordinary business man, lacking economic training, without great difficulty, but the remainder contains much that is worthy of the best analytical mettle.

Apart altogether from its subject matter, the book will stand as almost a landmark in the development of method, for it employs, to an extent hitherto not found in a work of this size, the method of direct and *ad hoc* statistical verification, by correlation, lagging and the ratio of dispersion or variation. While the broad features of concomitant variation are established, in accord with general impression or theory, by exact tabulation and charting, eliminating a constant trend, the author proceeds to much finer uses, and tests every statement as to precedence of events, and suggested causation, by correlating straight against lagged series. Moreover, amplitude of fluctuation being a very essential feature of the inquiry, the ratio of variation, or fullness of swing, comes under scrutiny in the same way. Thus we have (*a*) demonstrations of the statement that production fluctuates less extensively than employment, and a clear measure of the difference in amplitude; (*b*) a proof of the concordance and dependence and precedence of fluctuations of different industries, but of the markedly different *degree* of fluctuation as between instrumental and consumption trades; (*c*) another of the fact that accumulations of mobile resources are not the dominant influence making for industrial expansion, in which case interest would be low in good times and high in bad times, proving by the charts and tables that the dominant causal factor is on the side of expectations of profit; (*d*) an examination of the causal connection between good harvests and the expansion of industry, by comparing unemployment percentages and the quotients obtained by dividing the index of mineral prices by the prices of vegetable foods; (*e*) a test of the theory that booms of industry are caused by a cheapening of foreign food in terms of British manufacture; (*f*) an examination of the correlation (in the United States) between agricultural crops (yield per acre) and immediately subsequent changes in business activity; (*g*) the diminishing importance of this connection, due to world markets and prices and to advance dealing; (*h*) proof that stoppages of work due to industrial disputes involve smaller contractions of industrial activity than might *primâ facie* appear probable; (*i*) establishment of the consilience between good employment and high prices, and the intimate part played by money (after eliminating long-period trends in price); (*j*) indication of the relation between real floating capital, provided through

creation of new banking credits, and industrial activity; (*k*) a critical test of an American economist's thesis that the short-period variation in the frequency with which monetary circulating media change hands cancels out with short-period variations in the volume of trade, leaving the *quantity* of circulating media as the sole un-neutralised factor; (*l*) examination of the causal relation between the *rate* at which prices are rising and falling, and the volume of industrial activity; and various other analogous problems. The apparatus of these tests is not forbidding, with equations and coefficients, but is beautifully exhibited in graphic form, easily followed by the eye. Nowhere has the new method, so full of importance for the future of economic analysis, been carried to such clear and definite usage. Professor Pigou has by no means abandoned the older Cambridge proofs of general positions by algebraic methods and demand and supply curve graphs. These are abundant, but kept in modest position and range, nor are extravagant claims made for them, so that no reader need feel a perfect fool because he is not of the minority who can read them out loud, or of the select few who can even follow them. Some of them are ingenious and mentally arresting, others seem to be elegant trifling. The book as a whole is a skilful blend of original analytical presentation; of example and verification; and of deference to, and collection of, weighty authority. The cumulative effect is undoubtedly impressive.

Among the valuable contributions to economic analysis, either new or strikingly presented, we may note a few. M. Baranowsky has assigned a dominant part (in the determination of industrial fluctuations) to changes in the supply of mobile resources. Professor Pigou clears up an important and common confusion of thought, and shows that the unused purchasing power accumulated in times of depression is not a store of real things, but an accumulation of claims on other people by letting prices fall and keeping the power to raise them (p. 24). It would be interesting to know whether his conclusion that in 1920 retailers stopped off their orders in expectation of a consumers' strike, rather than as a result of it, would be modified as a consequence of Mr. Macrosty's recent presentation of the facts before the Royal Statistical Society (p. 25). The proof that the dominant causal factor is not on the side of the supply of mobile resources, but on the side of *expectations* of profit, which set in motion so many forces, is very clearly stated (p. 29). But the whole book, like all other treatments up to the present, is seriously marred by the failure to examine the question of profits *ad hoc*. We hear

much of variations in output and volume—all brought about by the profit stimulus and outlook. But how do expectations mature in practice? What profits are actually made in good times as against bad? Are the expectations valid, or will-o'-the-wisps deceiving every new generation? Or could one touch the high and low profit vitally by taxation or compulsory reserves or other methods, so that expectation would be modified, made less extreme, and thus all the forces set in motion by those expectations reduced to a new order of amplitude and response? The facts about profits need to be explored, their fluctuations classified for different industries, their lag ascertained, the effects of their different types of ownership determined, the possibility of artificially modifying them examined. Are these vital expectations, these errors of optimism and pessimism, which are said to be the mainspring of the whole affair, exactly the same with private firms making private fortunes, as with the managing directors of large public corporations, with their equalising reserves and level dividend policy? What is the dispersion of results in given trades? Nothing beyond my own paper in the *Statistical Journal* in 1918 and Mr. Coates' valuable evidence before the Colwyn Committee has appeared which tackles the problem from the profits end. Yet the more firmly we join Professor Pigou's persuasion, putting monetary *causes* in a secondary place, and the main emphasis on *profit expectation*, the more incumbent does it appear to be to make a theoretical and realistic study of fluctuations in profit-making.

When examining the effects of changes in taste, and concluding that such changes tend to cancel by setting an expanding feature against a contracting one, perhaps insufficient attention is given to the effects of overtime as a counterweight to short time or unemployment (p. 48).

The treatment of psychological causes is ingenious and thorough, especially the relation of two false expectations, which may jointly create for one another some justification. Can a man by thought increase his stature? Can business men by talking really increase trade? The generation of confidence is not wholly brought to book by the test of facts—it makes its own new facts as it goes along, but it can only do so within certain limits, and industry cannot always lift itself up by its own boot strings, or Coué itself into prosperity (Chapter VI).

In the treatment of the profits (and losses) which accrue to business men on a change in the price level, perhaps too much stress is laid upon the way in which the capital is financed

(debentures, etc.) and the lag in wages, and the author's examination of the profit and loss on the stock in hand, as a function of rapidity of turnover, is negligible. Anyone with practical business experience of 1918 and 1922 will know how enormous a factor in the "*expectation*" of business men the "profit" and "loss" carried in this form can be, however little justice there may be in that expectation as a permanently held advantage. It is doubtful whether the expectations of "bonuses" from capitalists and wage-earners to the business man really represent the way in which his mind works (p. 164). In general, he gets a pleasant surprise when his books are made up, and although making money on a rising price level is as easy as falling off a log, each is proud of his *own* prowess, thinks it is due in some way to his *own* business acumen, and proceeds to launch out for the following year. He, like the wage-earner, tends to "think in gold," and with no *really* larger spendable income, will act as though he had one.

The conclusion that rigidity in the general system of wage rates has a more important bearing on fluctuations than popular arguments, focussed on the circumstances of particular industries, would suggest, is well and carefully reached, and, with its refinements on the effect according to the range of industries over which rigidity extends where labour is mobile, is one of the most important practical issues discussed in the book. Of comforting interest, too, is the demonstration that the three main schools of thought ("harvest," "errors of forecast" and "price level") are not mutually incompatible. Each of these schools holds that if it is right the other two must be wrong. Our analysis shows that this is not so. "Each of the above factors may be dominant in the only sense that is intelligible—in the sense, namely, that if it, and therefore all the effects causally due to it, were removed, industrial fluctuations as they exist to-day would almost entirely disappear." In his criticism of his contemporaries' views, Professor Pigou is kindly, but searching. It will be interesting to see whether Mr. Hawtrey will be ready, in the light of it, to modify his well-known dictum that industrial fluctuation is "almost entirely a monetary phenomenon." Professor Pigou's judgment is adverse to the full claims of the monetary school, and he considers that successful price stabilisation might reduce the amplitude by perhaps a half, but that considerable fluctuation must remain. He also makes an inductive criticism of Mr. Hawtrey's view that a reserve discount policy can be converted into a stabilising discount

policy if the signal for action is found in price movements instead of in reserve proportions, and the constructive contribution on this subject ought to be mastered by all central-bank managements.

The general public economic mind is in a fair state of muddlement at the present moment on the apparently simple question: "Can the banks create credit, and if so, how, and how much?" and between the teachings of Dr. Leaf and Mr. McKenna, Messrs. Keynes, Hawtrey, Cassel and Cannan and Gregory, people have not yet found their way. It is perhaps a pity that Professor Pigou's criticism of some of these views is hidden away in a volume whose title may perhaps not lead the student directly to search there for it (*e.g.*, p. 124). Perhaps he may be induced to expand it separately into a review of all the chief data, *pro bono publico.*

Graham Wallas has taught us to study various stages in the development of thought; preparation, incubation, illumination and verification. We cannot say that we have here passed much beyond the second, but if Professor Pigou's work can be generally mastered, a whole team of thinkers may profit by his work and be ready for the flash of insight which may lead to "the next step." For even the most enthusiastic admirer of this work will not allege that on the constructive side there is more than a careful detailed examination of individual factors, or that we can rise from its perusal equipped for immediate practical action in the elimination or correction of industrial fluctuation. With this approach shot, of commanding brilliance, Professor Pigou leaves us an excellent lie, but we are not yet on the green, the run to the pin has fluctuations with atrocious amplitude, and hazards lie thick around.

J. C. STAMP

La Loi de Variation de la Valeur et les Mouvements Généraux des Prix. Par MENTOR BOUNIATIAN. 8vo. Pp. 154. (Paris: Marcel Giard, 1927.)

IN the small compass of this essay of 150 pages the author makes an ambitious challenge; and the fulfilment may seem incommensurate with the bold scope of his Preface and of the publisher's advertisement. His declaration that the theory of value is the "base" of "economic science" would be accepted by those less ready to allow that it can be satisfactorily approached and definitely resolved from the side alone to which, conspicuously, Jevons in this country and the Austrians abroad turned

by reaction from the old standpoint of J. S. Mill and his forerunners. But Professor Bouniatian is critical of the exhibitors of the limited aspect on which he and they fix consideration. His censure of the Austrians is the most complete; but, to quote his actual language, the theorists of the "subjective school," failing to give a " clear notion of utility," have not coped with the establishment of the " laws of variation of value." They thus left the fundamental question incomplete, and Economics, as he views it, has lacked hitherto firm central support. His own claim is, first, by analysing the conception of utility to remove the previous vagueness, and, revealing its complex nature, to grasp the laws of its variation, and, secondly, by pursuing the part they play in the general periodic fluctuations of prices, to show the inadequacy and error of the " quantity theory." In this connection Professor Irving Fisher becomes the target of attack. Our author's aspiration, it will be seen, is not meagre, nor in truth is his subject of trivial or passing importance. It is, in fact, as crucial as it is inevitable.

On the second matter we must be content to remark summarily that in the last analysis it appears to us that movements of general prices imply some change in the relation of commodities to their monetary measure, or of it to them, but that, while the origin (or origins, for they are likely to be plural and not singular) of movement may be sought and found on either or both sides of the relation, the question cannot be answered more surely or precisely than by a careful comprehensive balancing of possibilities, though on certain occasions a conclusion of high probability of connection between the known presence of an acknowledged potential cause, or causes, and the attested emergence of its or their recognised effect, or effects, can be put forward and accepted. M. Bouniatian adduces some pertinent considerations in his final chapters, but the subject of his animadversion is competent to defend himself from the assault thus launched, and in this as in what we deem the larger issue raised the positive construction offered as a substitute does not, we judge, fill securely the entire gap opened by the negative condemnation or vaunted removal.

What then, if we interpret it aright, are the extent and significance of the emending, or supplementing, collation of the theory of value as determined by utility which is placed before us in this essay? Professor Bouniatian would distinguish, as we understand, the conception of desirability from that of utility, and he would in this connection stress the contrast of general

well-being with particular needs, or wants. He would also bring to bear on the further, fuller, closer and deeper scrutiny of the "vague" "notion" indicated, or outlined, by Jevons and by others, enlightening, discriminating or fortifying conclusions deduced, not from the objective external evidence, which cannot probably, we agree with him, be forthcoming in satisfactory mass and kind, of numerical figures of market statistics, but from subjective psychological research, embodied in such laws as those of Weber-Fechner, or in Bernouilli's formula on the appreciation of increases of fortune, or in the wider use or application, which can legitimately be made, of such an old generalisation as that of Gregory King (or Davenant) on the price of wheat. These addenda or corrigenda are, we concede, illuminating in certain directions or particular respects, if they are not in their total result so epoch-making, or revolutionary perhaps, as M. Bouniatian holds. They serve to impart a beneficial, if not necessary, finish and polish to ideas which were at the outset, it may be, crude or ambiguous. But we remain at the end in doubt whether the high promise offered has been realised; and, though the clarifying genius of the French tongue can be once more exemplified by the difference, for example, expressed between general "bien-être" and particular "besoins," the uncertainty to which we are finally led raises inescapably in our own mind the still broader issue to which we alluded at the beginning of this notice.

We wish to state it here (with such brevity as we can) because we deem its importance has been enhanced by *obiter dicta* on value, as we may call them, lately contained in two small books, one on Karl Marx's *Capital* by the Master of Balliol, and the other on *Communism* by Professor Laski. We feel in duty bound to utter such stout protest as we are able to advance at the earliest opportunity against mistaken and misleading utterances on the history of the central theory of Economics—that theory properly so designated by our present author. Both writers seem eager to turn attention from what Professor Loria—no lukewarm admirer—has pronounced to be the "complete failure" of Marx "in respect of the fundamental object of his thought"—the significant circumstance, in short, that his theory of "surplus value" has remained, despite attempted camouflage by himself or Marxians, in hopeless contradiction with the manifest fact that, in actual practice, profits do not correspond, as his boasted conception needs, with the proportions of "variable" and of "constant" capital (*i.e.* of labour, and of machinery and materials), but tend to equality whatever be those proportions.

Professor Laski, in what appears to be an apology, or more, for communistic hate and destructiveness, adroitly skating away from where he discerns perforce treacherously thin ice, and repeatedly postponing his return, acknowledges the " help derived " in *handling " Communist Economics " from the Master of Balliol's* book. As he says that he knows of " no volume in English that better explains the purpose and limitations of its theme," we can turn straightway to that. But Mr. Lindsay seems to us, no less perversely, engaged on a slim device to disarm deadly assault by plausible gloss and adjusted estimate. He argues in effect that his broken idol, by emphasis on " socially necessary labour," was virtually stealing a march on the economists, whose reasoning he adopted, or adapted, for his purpose. What we are concerned with here is not so much the far-fetched credit given to Marx for a " broader " conception of value as a " social product." We do not know whether the phrase, pressed so hard, of " socially necessary labour " is regarded by the Master as anticipation of the later, wider inclusion in authoritative expositions of value of the study of demand, or merely as a reproach directed against previous narrow exclusive individualism. But what we would now wish to deprecate is the special pleading of the insinuating debit charged to the açcount of the orthodox teachers, that they were prompted or directed by a corrupting wish to bolster an existing order, and to justify capitalism and *laissez-faire*, in their preponderant insistance on the side of supply. Frankly we can discern little or no authority for the assertion that they regarded demand as constant, and we have been wont to adopt another reading, which we believe to be more sensible and less biassed, of the evolution of economic thought on its central theory. We find no valid reason for discarding this interpretation in the apochryphal variant of the Master and Professor Laski, and our version of the text has been corroborated by the commentary put forward in the book we are reviewing. This is our apology for the digression, and we will end this notice with a compressed statement of our view.

Busied, accordingly, as we think, in a scientific spirit on the discovery and expression of " laws " representing general tendencies, economists then as now looked for a force or forces working with such regularity as to be properly the base of such a law. Demand appeared to them not constant, or fixed, but, comparatively, temporary, arbitrary and capricious, while sellers, or the producers behind them, seemed, under the influence of the continuing motive to avoid loss, to be actuated in the long run normally by the competitive consideration of cost or expenses of

production. So it was, in this mood and with this aim, that they explored thoroughly the law, or laws, of supply; and it was not, despite of such interesting anticipations as that of Professor Lloyd, noted in the recent special historical series of this JOURNAL,[1] until an influence regularly stimulating, or checking, consumption was unearthed in the natural instinct, and also rational purpose, to spend more on what was more urgently wanted and less in comparison on what became by contrast less desirable, that theorising on value was bent compellingly in the direction of the determining conduct of buyers. To us, who have happily witnessed the catholicity of Marshall, combining both aspects, and disclosing unsuspected analogies between the two, the essay we are reviewing affords fresh justification of the attitude of Ricardo and Mill, not as it was twisted by Marx, nor yet as it has been misshaped by those most recent controversialists to whom we have referred. For M. Bouniatian, accepting, without the reserve which we feel requisite, the overthrow of the earlier and the substitution of the newer theory, after a succeeding half-century of dominance, as he declares, envisages a problem which is still hard, and detects glaring gaps remaining open in its treatment. And in the end he himself appears to us to have offered more or less tenable suggestions for reconsideration rather than reached complete definitive solution. The establishment here of approved scientific law is not freed from question, and demand has not yet shaken off all suspicion of irregularity, varying with individual temperament, and stubbornly jarring the smoothing influence of market averaging. The record of the earlier fifty years of sway of the old-fashioned theory could, we conceive, submit with equanimity to the test of comparison. It might complacently exhibit a capacity for survival which would entitle it to some amount at least of atavistic favour. L. L. PRICE

The Measurement of Economic Value. By DAVID ATKINS. (Gelber Lilienthal, San Francisco. Pp. 189. $3.)

THE author is an irrigation engineer who has, one infers, been struck by certain analogies between physical and economic problems, and he has, with great ingenuity, worked out a theory of value and certain inferences regarding money and taxation suggested by hydraulic and electrical analogies. Those who wish to understand the book may be recommended, perhaps, to read first Chapter X. If the reader begins with the earlier chapters he will find it very difficult to grasp what the author is driving at.

[1] Cf. No. 2, p. 168, etc.

It is difficult to paraphrase a writer who uses words in his own way and makes definitions different from those previously accepted, but one may attempt a general description of the author's main principle by saying that he wants to get away from either a physical or a monetary conception of wealth by expounding a conception not so general as "welfare," but which might be described as effective control over material forces. These are not his own words. He prefers to use the word "value" in his own sense, defining it as the ratio of effort to resistance. His knowledge of hydraulic and electrical engineering leads him to see that there is a useful analogy in the idea of "resistance." Capital, money, organised government and society are conceived as things which diminish the resistance of Nature to man's effort to control it. Man does not want these things for their own sake, but as means to an end—*i.e.* power to do what he wants; neither the material capital nor the money are anything but means towards the attainment of power. The effective power of a community may not necessarily be proportionate to the quantity of useful material objects, or their money value. The degree of proximity of people to one another is an important factor. Perhaps in the western regions of America this fact has been thrust upon the author's notice in a degree not so fully appreciated in this country.

With a great deal of what is said one may agree. It is more questionable whether one can agree with the author's inferences as to taxation and monetary policy. He thinks that his "value," though not directly measurable, is indirectly measured by aggregate land value. The increasing effective power which results from the aggregation of people together is reflected in ground values, and he regards the aggregate of ground value as the quantity which should determine what ought to be the quantity of money. His principal argument, however, in support of the usefulness of the ground value aggregate is derived from an estimate made by Dr. King, Professor Friday and the Institute for Research in Land Economics and Public Utilities, showing, from 1870 to 1920, a very steady ratio of aggregate land value to aggregate total wealth (from 35 per cent. to 40 per cent.). The aggregate of land value must be more difficult to determine, and it would seem to be easier to use the aggregate wealth total in so far as it may be desired to have a magnitude for comparison from year to year.

The author desires, however, to determine the amount of money by means of land values. On p. 177 he sets out the proposal, "To avoid any confiscation of titles that are at present honoured it is proposed to determine as accurately as possible,

in terms of the present dollar, the value of the total holdings of land area in the United States, on the basis of ground rent capitalised, and then calculate what number of square feet of present average population-density is equivalent in value to one dollar. Thenceforward it is proposed to permit any landowner who has prepaid his taxes on the basis outlined above to lodge with a suitable government agency a negotiable deed of trust to his land, accompanied by his receipted tax bill, and receive an equivalent number of dollars, less a charge for seigniorage. . . . These certificates of value to be made legal tender, and to be issued for a period not exceeding that covered by the accompanying tax receipt, but to be renewable on demand by the prepayment of additional seigniorage and taxation for any subsequent tax period, taking into account such modifications of population-density as may be shown by the records at the time of renewal."

The quantity of money once determined is to remain fixed excepting so far as population-density increases or decreases—which it will do in varying degrees in different areas. The necessity to pay taxes would compel landowners to obtain the proposed monetary "deeds," and the rate of interest offered for their use would regulate the quantity put into circulation.

There is, apparently, nothing to prevent bankers from using such legal tender money as a basis for credit, and though the author gives his "answers" to a great many "objections," it is not clear how the vast reservoir of possible legal tender money would not be likely to produce a great inflation of prices. The whole scheme strikes one as ingenious rather than practicable, and the author does not go very deeply into the *modus operandi* of it. The landowner is to pay all the taxes, but he is to have the privilege of getting, in addition to his ground rents, the possibility of obtaining interest on a sum equal to the value as determined in the base year. There might be such a flood of money that prices would rise, and the ground rents also, in time, but the amount of legal-tender money obtainable would not rise, except so far as statistics of population-density in artificially determined areas permitted it, in accordance with the scheme. The actual ground values might become very widely different from those determined for this monetary purpose. The author does not give any convincing demonstration that the quantity of legal-tender money which is wanted to keep prices something like stable at the original level is equal to the aggregate of land values. It is to be feared there would be a tremendous inflation of prices if the scheme were adopted. C. F. BICKERDIKE

Diminishing Returns in Agriculture. By F. LESTER PATTON, Ph.D. (New York: Columbia University Press. 1926. Pp. 100. 6*s.*)

THIS is the second American work of recent appearance aiming at an exposition of the law of " Diminishing Increment " or of " Physiological Relations "—the term varies with the nationality of its users. In the present study, although the work of the German writers, Mitscherlich and Lang, is referred to, the mathematical aspects of the subject are not stressed; indeed, its author specifically states that his essay is not intended to provide a theoretical discussion of the subject, but aims at an analysis of its practical aspects. For the purpose of this review, he ranges from man's muscular output, *via* the rate of growth of animals and the efficiency of machinery, to the more ordinary agricultural operations. All the accompanying Tables are of considerable interest, although Physiologists might perhaps make chronological reservations regarding the speed-load ratio in the case of human beings, and engineers would certainly call for inclusion of certain other variables disregarded in the analysis of internal combustion engine efficiency. Whilst in general the conclusions arrived at are orthodox, those readers who are acquainted with farming conditions in the Old World will find difficulty in accepting certain of Dr. Patton's conclusions drawn from data relating exclusively to the United States. For instance, such Tables as those which illustrate the effects of repeated tillage operations, and particularly the cost of production of an acre or of a bushel of wheat, are based upon figures—themselves often assumed—which bear no resemblance to any corresponding English statistics. Since seed must normally be sown at a rate of two bushels to the acre, yields of from one to four bushels can clearly be shown to be unremunerative, and average money returns proved to increase up to a level of ten or twelve bushels in a scale which terminates at sixteen when variable costs are arbitrarily allocated. In the opinion of the author, marginal physical returns throughout conform to the law he is discussing, and it is due to a general " failure to distinguish between [them] and total money profits " that leads him, in a chapter entitled " Anticlinal Profits in Agriculture," to elaborate this argument with considerable success. Again, however, it is impossible wholly to endorse such assertions as the following: ". . . rather than take such reduced yields, the small cultivator in England devotes most of his land to pasture "; even if correctly stated, this phenomenon could not

be attributed to the single cause assigned to it by Dr. Patton. Further, is it absolutely certain that diminishing returns (due to progressive inefficiency in management as the unit of size increases) represent an important factor in the Westerly movement of the small undertaking in the United States? Has not general economic, social and financial pressure played an overwhelming part in this development? A very familiar subject to English readers is discussed in the final chapter, where the title " Secular Diminishing Returns in Agriculture " affords opportunity for tracing the population versus food supply controversy of the past hundred and twenty years. Those who were present at the last meeting of the British Association will find familiar arguments introduced with clarity and illustrated from unexpected sources, but the historical background is not strengthened by the sweeping statement made upon p. 76, that " the Berlin and Milan decrees had become sufficiently effective . . . to stop the importation of European grain." Relying upon American authorities, Dr. Patton has reassuring views as to the future expansion of wheat production, but he also holds that the " cereal stage " of civilisation is nearing its end. There is no reference to the man-land ratio in general, and one would have welcomed his opinion upon the figure of 2·5 acres recently under discussion here.

The book is thoroughly to be recommended; it is well conceived, written in a pleasing manner, and, with the exception of misprints on pp. 62 and 63, excellently produced. Its arguments are temperate, and its author is always ready to listen to the opinions of those with whom he is at variance; for a subject in which there is a paucity of statistical evidence, and where, therefore, precision is difficult of attainment, these are valuable assets.

J. A. VENN

Horizontal und Vertikal im Wandel der letzten Jahrzehnte. Von DR. MANUEL SAITZEW, Zürich. Kieler Vorträge, No. 19. (Jena: Fischer. 1927. Pp. 36.)

DR. SAITZEW has in this lecture made a contribution to the descriptive classification of industrial combinations, and also to the analysis of concepts. He denies the definition of Trust to the vertical fusions, since he bases the concepts of Trust or Cartel on monopolist purpose. In his classification he uses the method of co-ordinate axes in order to relate to each other the three " Moments " of Instrument (Agreement, Fusion, or Holding Company), Direction (Vertical, Horizontal, or Mixed) and Motive

(Monopoly, Rationalisation, Evening of Risk, Secrecy, and so forth). Thus Cartel-point is given by horizontal agreement with monopolist motive; if the motive is rationalisation, the structure is an *Arbeitsgemeinschaft*. There is more than one Trust-point or Concern-point. By this method he must be allowed to have done something to "rationalise" the argument respecting "Rationalisation." His diagrams deserve the attention of teachers especially. In conclusion, he considers which structures have been typical of German evolution before, during, and after the war. The pre-war Cartel gave way, in the special immediate post-war conditions, to the Concerns, based not so much on economy as on a form of defensive activity. But the horizontal method has reasserted itself, and Trusts have appeared, largely influenced by the new concept of Rationalisation. So much is said in so short a space that this monograph will at once take its place in the literature of the subject.

D. H. MACGREGOR

Politique et théories monétaires anglaises d'après-guerre. By JEAN-PIERRE LAZARD. Preface by M. CHARLES RIST. (Paris: Société anonyme de Recueil Sirey. 1926. Pp. viii + 125.)

THIS pleasing little book by Jean-Pierre Lazard, a young French student, who unhappily did not long survive the writing of it, does not profess to do more than present to French readers the fruits of contemporary English wisdom, practical and theoretical. The first part contains a short synopsis of monetary policy from the Armistice to Mr. Churchill's first budget. The elegance and simplicity of this narrative must be the envy of maturer English authors. Still more striking and valuable is the second part, in which M. Lazard retains his lucidity even while unfolding the subtle thoughts of Mr. Hawtrey. The only novelty of matter is a monetary formula, "exposée par Keynes (dans son cours)," (p. 84). But a review of M. Lazard's book is not the proper place to comment on this new and interesting piece of mechanism. M. Lazard shows a thorough acquaintance with the writers whose views he expounds. Most English readers of his work will wish for it a wide circulation in France.

R. F. HARROD

Christ Church,
Oxford.

La Stabilisation monétaire en Belgique. By LOUIS FRANCK. (Paris: Payot. 1927. Pp. 124.)

M. FRANCK, as governor of the National Bank of Belgium, was in a good position to know and to shape the course of events connected with the stabilisation of the Belgian franc. He has written an excellent account of it. He includes in his survey a description of the abortive attempt at stabilisation undertaken late in 1925. M. Franck was at that time a keen member of the liberal opposition in parliament, and he combatted the financial policy of the Government in a spirited manner. The early chapters of this book are enlivened by extracts from parliamentary debates. M. Franck's main contention was that stabilisation was premature so long as no attempt had been made to deal with the floating debt. He proceeds to a clear and straightforward history of the later, more successful effort. There is an exceedingly interesting chapter on the "industrialisation" of the Belgian railways. There are good discussions on the new rate of the franc, the price level in Belgium and the clause allowing the bank to hold 25 per cent. of its legal reserves in the form of foreign bills. Not all readers will agree that the intrusion of a new word, *belga*, into our financial vocabulary was essential to Belgian recovery.

R. F. HARROD

Christ Church,
Oxford.

Influenze Monetarie sulla Distribuzione delle Ricchezze. La Inflazione. By BRUNO FOÀ. (Milano: Albrighi, Segati & Co. Pp. 146.)

OUT of the 146 pages of this book, not less than 100 in all are devoted to a survey of the already familiar problems of the monetary causes and phenomena of inflation. In these pages Signor Foà proves that he possesses an acute and well-balanced mind, and that he is familiar with foreign as well as Italian authorities on currency questions.

In the remaining 40 odd pages he has only left himself space to touch the fringes of what the title would lead the reader to expect was the main theme of the book—the effects of inflation upon the distribution of wealth. Here his treatment, though suggestive in places, is too slight to have much value. We could well have dispensed with the whole of the theoretical part of this book if, in return, we could have been given even a little

first-hand investigation into the manner and extent of the transfer of wealth from one class to another during different stages of inflation.

C. W. GUILLEBAUD

St. John's College,
Cambridge.

Investments Abroad. By A. EMIL DAVIES. (A. W. Shaw Company. Pp. vii + 200.)

THIS small volume has presumably been produced for the information of American investors, who, it is stated in the Preface, "may perhaps learn something from these pages, which embody some of the lessons culled from London's experience as an international market." It is therefore designed to serve a specifically utilitarian aim, and its interest for the economist is incidental.

The first of the fifteen chapters, headed "The Growth of Foreign Investments Throughout the World," seeks to deal with this portentous topic in ten pages, and is in consequence unbalanced and inadequate. For this reason it might well have been amalgamated with a still shorter chapter headed "The Trend of Investment." And even in a work of this kind it is a little difficult to understand the relevance of a section devoted to discussing the educative value of foreign investment.

But the remaining chapters serve their purpose well, since they contain much detailed and descriptive information relating to such topics as existing security markets, methods of investment, difficulties resulting from unsymmetrical international taxation, and associations designed to protect investors against risk. All of these, although done in popular style, are written with profound knowledge, and well supported by a complete range of examples. Yet the most capable chapter of these is that devoted to Investment Trusts. This displays clearly the functions and considerable importance of what has been a typically English form of organisation. It is interesting to learn that in 1925 approximately £167 m. capital was held by English trusts.

The book concludes with a chapter containing the summarised judgment of the author as to the facilities for safe and profitable investment offered by investment fields throughout the world. That some of the comments here are disproportionate is shown by the fact that while detailed reference is made to countries such as Belgium and Brazil, France is dismissed with the remark, "A better country to spend than to invest money in," and Persia by the one word "Risky!"

Taking the work as a whole, its chief value lies in the fact that the author has gathered together into one volume a mass of detailed information which is the outcome of many years' experience of market conditions, and therefore authoritative. As such the only important point calling for attention is an apparent contradiction on pages 9 and 46 as to the actual amount of America's foreign investments. In any case either of these figures gives the general reader the impression that the total of such holdings is larger than that indicated by the President of the New York Stock Exchange in his recent review of the year 1926.

J. SYKES

University College, Exeter.

Die Finanzpolitik und das Bundessteuersystem der Vereinigten Staaten von Amerika von 1789 *bis* 1926. Von DR. RICHARD BÜCHNER, Privatdozent der Universität zu Breslau. (Jena, Fischer, 1926. Pp. xvii + 471.)

THIS is the third number in the series of *Finanzwissenschaftliche und volkswirthschaftliche Studien*, edited by Professor Karl Bräuer of the Institute for Fiscal Science at the University of Breslau. The studies have thus far dealt with American topics, and in this number Dr. Büchner devotes a portly volume to the history and description of the fiscal policy of the United States.

The primary service of the book is to present to the European reader a picture which in its totality cannot be found in any other single work, American or foreign. The author, it is true, was at a disadvantage in not being able to consult at first hand some of the more important official sources like the committee reports, which play so great a rôle in American history; but this disadvantage is not perceptible in the more recent period, where Dr. Büchner has been able to avail himself of most of the significant documentary material.

The study is accurate and thorough, and discloses a familiarity with the scientific literature of the leading authorities, especially during the past few decades. Dr. Büchner also manifests great skill in selecting the really outstanding issues, and in preserving a detached and thoroughly scientific attitude. Where there is so much that is admirable, it seems almost ungracious to call attention to the weaknesses of the book, which, be it said at once, are those of omission rather than commission.

In the first place, no attention is paid to the rich controversial literature. In the United States, perhaps more than in any other

country, economic and fiscal problems have been treated in detail in numberless pamphlets and monographs. In our own library we should estimate that there are at least two or three thousand monographs which deal with the fiscal history of the United States, none of which has been utilised by the author; and which would have shed brilliant light on not a few of the darker points. It shows the difficulty of discussing with complete success the economic problems of a foreign country without conducting researches on the spot. Inasmuch as all this material still awaits a future investigator, we must perhaps not complain that it has been unutilised by Dr. Büchner.

In the second place, we should note as a defect the failure to give an adequate discussion of the real achievements as well as shortcomings of the leading secretaries of the Treasury. In the case of Hamilton we find no critical estimate of his accomplishments. The real contributions of Gallatin are not clearly set forth, and especially the noteworthy work accomplished by Dallas is not emphasised. Above all, the essential incapacity of Chase in the Civil War period is not disclosed, and the weaknesses of McAdoo in the Great War are slurred over. Inasmuch as few as these points, with the possible exception of Hamilton, are discussed, or scarcely more than mentioned, in the American literature itself, this shortcoming in Dr. Büchner's work is not surprising; but it is none the less regrettable.

Finally, it may be pointed out that in the historical survey almost no attention is paid to the subject of the public domain, in its fiscal and general political significance.

These criticisms, however, simply show that we must not expect to find in Dr. Büchner's work a contribution of epoch-making importance. What we do find is a comprehensive survey—the only one of its kind—which will not only be of the utmost value to all Europeans, but which will also be of considerable service to American students who desire to secure a presentation, especially of the recent development, which is at once more detailed, more many-sided and more well-balanced than anything that is to be found in their own literature. If Dr. Büchner is to be criticised for not having written a definitive or classic work, he is at least to be congratulated on having accomplished a workmanlike job in a thoroughly scientific and interesting manner.

EDWIN R. A. SELIGMAN

The Romance of the Cotton Industry in England. By L. S. WOOD and A. WILMORE. (Oxford University Press. 1927. Pp. xv + 288. 5*s*. net.)

THE aim of this book is to depict the cotton industry in its setting as part of the history of England. Consequently, it contains much more than an account of the development of the industry, in fact some parts of the book, even when the aim of the authors is allowed for, almost appear to border on irrelevancy.

The chapter on the geographical setting of the cotton industry is the best; the others contain little that has not been said before. The general reader, for whom the book is intended, will doubtless find it interesting, especially as it is so written that he will be able easily to absorb the information it contains. Not the least valuable part of the book are 94 illustrations and maps.

G. W. DANIELS

The University, Manchester.

Electrical Power and National Progress. By HUGH QUIGLEY (George Allen and Unwin, 1926. Pp. 159).

The Electrical Industry in Germany. (Published by the British Electrical and Allied Manufacturers' Association. Pp. 152. 10*s*. 6*d*.)

THE search for parallels is always an intriguing pastime, and there is strong ground for believing that Mr. Quigley looks to the development of electric power to rescue us from our present troubles, just as the development of steam power rescued us from the depression following the Napoleonic wars. He is not the only authority to cherish this hope, and unlike others he is not content with a pious hope of this character, but recognises that if it is to be translated into reality, we must subject to a critical examination all known data relating to electric power and use our conclusions to judge all schemes put forward. This, in brief, is the underlying purpose of his book.

Electric power development is by no means the simple thing that many people imagine. It seems easy to select a site next door to a coal mine, to build the station and install the dynamos, and then to invite the industrial world to come along and buy power. Power, however, is just like any other commodity; it must be sold at a price which will be palatable to buyer and seller alike, and it is around this question of price that the major part of Mr. Quigley's examination rightly turns.

Price depends upon many intricate factors, and the size of the

power-station is only one of them. The cost of erecting and maintaining transmission lines must be considered, while an all-important point is the size and constancy of the load factor. A power-station can only succeed if it is being used day in and day out at its full capacity, and once this fact is realised, it follows that the large power-station will not necessarily be the cheapest. Mr. Quigley looks for his solution more to a policy of interconnecting stations, with a view to spreading the existing—and often spasmodic—demand, and replacing alternate gluts and shortages by an even demand on all stations in the net.

With the purely technical aspects of the question we are not equipped to deal, but in these days of "super-power" schemes we congratulate Mr. Quigley on performing a notable service in stressing the economic side of the problem. At the same time, it is only fair to the advocates of such schemes to say that electric power is being used extensively and with marked success in other countries, and that there is no fundamental reason why we should not go and do likewise. The Beama's publication on the German Electrical industry contains a mass of information, and though the Beama will not claim to be infallible upon purely financial and economic questions, its account of electrical development in Germany is extremely valuable. Its conclusions, of course, are open to doubt, and in weighing them up it is necessary to realise that it is considering such matters as the Dawes scheme from the specialised standpoint of the British manufacturer, rather than from the more general standpoint of the British nation. As a fair representation, however, of the British manufacturers' views upon current economic problems, the book is not without interest, while the purely electrical sections are most valuable.

Whatever its future, electricity is one of the most important questions of the present day. We could do with some more books like the two discussed above.

NORMAN CRUMP

Der Mitteldeutsche Industriebezirk. By DR. JOHANNES MÜLLER. (Jena: Gustav Fischer. 1927. Pp. 86. 4 M.)

THIS is an essay of the kind that used to serve German students of political economy as a *Seminar* exercise, or as a dissertation when going up for the doctor examination. It is clearly the result of very considerable, though by no means exhaustive, research. The economic area here defined takes in almost the whole of Saxony and Thuringia, which are practically homogeneous in language and customs, together with adjacent

relatively small portions of Prussia and Bavaria, and contains a large system of brown coal mines, with important porcelain and glass, mineral, metal and machine, textile and clothing, chemical, paper, leather, wood and toy, musical instrument, food, and minor industries. The author shows that this district, when measured by the number of its factory workers of all kinds (for the large house industries are arbitrarily excluded), is the largest industrial " complex " in Germany, for it employs 1,400,000 such workers, compared with 1,300,000 in the Ruhr district, 600,000 in the Main and Neckar district (which presumably would include Mannheim), and 500,000 in Greater Berlin. Allowing, however, for incompleteness in the official statistics quoted, he concludes that there live within the geographical limits named nearly one and three-quarter millions of industrial work-people who " belong together and form a unity."

The greater part of the essay is devoted to a detailed consideration of the local incidence of the industries, their dimensions and products, and the special conditions of production affecting them, yet without any attempt to trace their historical development, which might have been deeply interesting, since some of the industries have a long ancestry. The outstanding and most attractive characteristic of this Central German industrial area is the fact that it is a region of undertakings of medium and small size, the colliery and chemical industries being as yet the only marked exceptions, though there is a steady movement in the direction of larger units. The small undertakings remain still in the hands of private individuals far more than is the case with the large industries of Western Prussia, an arrangement attended by advantages as well as disadvantages; for while private undertakings depend more than company undertakings upon year-to-year results, and cannot so easily face a sequence of adverse balance-sheets, the relation between employer and employed in the former case is apt to be more direct, personal and human.

One or two criticisms must be made. The author's principal defect is his habit of stating propositions and then leaving them without following further his line of argument. All through he seems to take it for granted that the recognition of Central Germany as a " closed " and unified industrial area is bound to be advantageous, but nowhere does he say why, or what results would follow. All he tells us in a final " summing up " page is that the Ruhr region has too long been regarded as the heart of German economic life, that a closer *rapport* between Saxony

and the rest of Central Germany is desirable, and that the industrial conditions of this area call for more detailed investigation. It is a pity that he has not given a more practical turn to his inquiries. One would have liked him to face seriously the question whether it is good policy to sectionalise national economy in the way he suggests. Would it not tend to create unfriendly rivalry between industries and even whole communities, and lead to clamour for some sort of local protection such as existed all over Germany a century ago, with the consequent weakening of the realm? We are told in one place that the industries of Central Germany already suffer far more from seasonal oscillations than the industries of the Rhineland and Westphalia, and have more bad years than good. The writer attributes this to climatic conditions, the rapid changes of fashion, and the limitation of sales to a relatively small circle of consumers. But if the facts are as stated, is not the remedy to be found in abandoning the idea of creating self-contained industrial districts, whether in the central or any other part of Germany?

It is a minor fault that, like many other German writers, Müller insists on coining new words of his own. Thus he talks of "full industries" (*Vollindustrieen*), by which he means industries covering the entire process of production from raw material to finished article. The phrase is almost as unhappy as that invention of German official statisticians, "full workman" (*Vollarbeiter*), meaning not a workman who has dined inordinately well, but one who does a full week's work of a given number of hours. We are also told that the Rhenish-Westphalian district is "*rohstofforientiert*," meaning that its industrial bias is towards primary production. It might be well if Germany set up some sort of Academy with a view to checking such violations of literary taste.

W. H. DAWSON

Contributions to the Economic and Social History of Sweden during and after the World War. Ed. by ELI F. HECKSCHER (Stockholm: Norstedt. 1926. 2 vols. Pp. 365 + 304.)

THESE two volumes give an account of Sweden's economic and social life after 1914. They have so far been published only in Swedish, but a slightly shortened edition is to appear in the Carnegie Endowment Series, "The Economic and Social History of the World War." Anyone familiar with that series knows that it contains or will contain material concerning all significant

sides of the war in its economic aspects. It is inevitable, therefore, that most of the volumes deal in detail with particular questions, Cotton Control, Shipping Control, etc., and consequently, are of interest chiefly to the specialist.

In this respect the volumes dealing with the small neutral countries are at an advantage. They present much more of a bird's-eye view of economic life as it was affected by the war, and therefore warrant the attention also of economists who cannot give a considerable part of their time to the study of the economic history of the last decade.

It is also noteworthy that the economic effects of certain disturbances connected with the war are probably seen more clearly in neutral countries where the war itself, *i.e.* the military measures, did not exercise such a dominating influence as in the belligerent countries.

The editor of this book about Sweden, Professor Heckscher, contributes an introductory survey of the whole period after 1914. Several problems of more general character are raised, *e.g.* the implications of "Planwirtschaft," its merits and disadvantages as compared to an economic organisation of society along more private-capitalistic lines.

The second section contains an account of the food problem, written by Mr. Carl Mannerfelt. Owing to the restriction of imports caused by the Allied "blockade," Sweden had great difficulties in procuring sufficient food of various kinds. The rationing was severe, at one time much more so than in Germany. Naturally, there arose several problems of food distribution and production, which were made very difficult because of the fixing of "maximal" prices on the most important products.

Mr. Olof Edström in an interesting narrative analyses the numerous problems which arose in the manufacturing industries. His chapter head-lines are: The conditions of production before the war; The main aspects of the industrial position during the war; The aims of the State policy and how they were carried out; The supply of raw materials; The volume of production during and after the war; The price development.

The last section of the first volume describes social conditions and social policy up to 1925. Mr. Olof Ekblom surveys the labour market and the wage level, Mr. Otto Järte and Mr. Fabian von Koch the unemployment policy, and Mr. K. G. Tham the housing market and its regulation.

Swedish unemployment policy differed—and still differs—considerably from that of most other countries which followed

the lines of unemployment insurance. The brief account of the Swedish system and its working should, therefore, be helpful to all economists who are interested in the unemployment problem.

To students of price theory the long experiment with fixed or regulated rents—a suspension of the ordinary mechanism of pricing—offers some interesting material.

The last volume contains only two investigations: "Money System and Monetary Policy, 1914–25," by the editor, and "The Policy of Trade and Sea Transport during the World War," by Mr. Kurt Bergendal. Of these the former is most noteworthy. In fact, Sweden's experiences during and after the war throw light on some of the most discussed questions in monetary and international trade theory, *e.g.* the influence of increases in freight rates on relative price levels and foreign exchanges, the effects of an increased demand for a country's export goods, and many others.

It would carry me altogether too far to enter upon a review of Professor Heckscher's results. Let it be said, however, that he follows classical lines in his analysis of the foreign exchange theory and is a firm opponent of the purchasing power parity theory. At one time the sterling exchange in Stockholm was only *one-half* of what it ought to have been according to that theory. In his discussion of discount policy and his criticism of the Bank of Sweden he is on the whole in accord with Cassel and Wicksell.

Through his analysis of the relation between the foreign exchanges, the various price levels, and all factors reacting thereupon, Heckscher has made a contribution to our knowledge of the mechanism of international trade which no student of these questions can afford to neglect.

BERTIL OHLIN

Copenhagen University.

La Belgique Restaurée. Étude Sociologique publiée sous la direction DE ERNEST MAHAIM (Bruxelles: Maurice Lamertine, Editeur, 1926.)

FOR some years after the Great War ended, "Reconstruction" was a favourite word in Britain. First, we had a Reconstruction Committee (appointed by the Prime Minister in 1917), and then a Reconstruction Ministry. Then, reconstruction just seemed to happen, slowly, and upon lines that were largely independent of the "best-laid schemes of mice and men." In the volume edited by Professor Mahaim we have a valuable record of the

steps taken by the Government and by private individuals, in Belgium, to restore the country to normality after the long war period. It consists of nearly 700 closely printed pages, in which the subject is reviewed under nine heads, viz. the Population, the Devastated Areas, Agriculture, Industry, Commerce, the Condition of the Workers, Finance, National Wealth, and the Belgian Congo; and there is a final chapter, contributed by Professor Mahaim, in which a summary is given of the main facts emerging from the preceding sections.

The book will find a place among important historical records, although the number of readers, at any rate in countries outside Belgium, will not be large, since it deals with the subject in greater detail than the average reader demands. It was completed in July 1925, but a protracted printers' strike delayed its publication till about a year later.

The post-war recovery of Belgium is an achievement of which her people are rightly proud, though, as Professor Mahaim reminds us, the *proportion* of industry and agriculture which had been completely put out of action by the war was much less than the " man in the street " imagined. Naturally, his attention was concentrated on the damage done rather than on the extent of the areas which had practically escaped scot-free.

As elsewhere, the trade boom following the Armistice, and the psychological atmosphere of the period, enabled the workers materially to improve their condition. Not only are their real wages now higher than before the war, but they have obtained other advantages, such as the eight-hours day, old age pensions, an improved status for trade unions, unemployment insurance, and so forth. Moreover, the introduction of universal suffrage at twenty-one and the abolition of the plural vote have materially strengthened their political position in the State. On the other hand, a large section of the middle classes, notably the rentier class, has become poorer; since in this group the imposition of fresh taxation, including (for the first time) an income tax, has markedly lowered real incomes, already seriously affected by the depreciation of the franc.

With unimportant exceptions, Belgian industry has been restored to its pre-war prosperity. The 1,250 miles of main railway which had been totally or partially destroyed were in working order by the end of 1919. Two-thirds of the light railways, which play so important a part in the social economy of Belgium, had been destroyed or damaged, but all these were functioning again before 1922. Export markets have been

recaptured, and the port of Antwerp is flourishing, and occupies her old place among the great ports of the world.

It would be impossible in a short review to give, even in bare outline, an account of the steps taken to bring about the reconstruction of Belgium; but Professor Mahaim points out that, at first, when the work was left to private initiative, it went on slowly, but when the State stepped in to help, progress was much more rapid. The Government recognised that it was dealing with unprecedented conditions, and it was not afraid immediately to try new methods, and to change them quickly if they proved ineffective. Yet, the writer warns us against exaggerating the part played by the State, since " the essential foundation of the restoration of the country has been the work of individuals."

Taken altogether, the book is a fine piece of work, worthy of the men who have contributed the individual chapters, and of its distinguished editor.

B. Seebohm Rowntree

The Anatomy of African Misery. By Lord Olivier. (Hogarth Press. 6*s.* net.)

The task of reviewing a book which is at once so right and so wrong as this study by Lord Olivier of the social economy of South Africa is one of peculiar difficulty. The difficulty is increased by the fact that it is so much easier to indicate what is right in the book than to explain—especially to those who do not know South Africa—what is wrong. Its analysis of the social and economic causes which have brought South Africa to what is perhaps, *the* crisis of its history is a piece of masterly etching (" etching " is the right word here, as those who catch the tone of the book will feel). In one sure, swift sentence, Lord Olivier gives the substance of the whole picture:

" Capitalist industrialisation was the principal agent in converting the black man from a common convenience into a possible competitor of the white; whereas in the old, characteristic South African economy he was only his humble servant and helper, and, whether he was fairly dealt with or not, he did not compete." It is true, beyond any doubt, that fear of the economic competition of the Bantu and of its possible effects upon the settled order of the white man's life in the future is a major determinant of opinion and policy in South Africa to-day. It is also true that what the author calls " capitalist industrialisation " has produced the conditions out of which the fear arises. Under the simple

conditions of pastoral farming on a subsistence basis, which prevailed over the greater part of the country before the discovery of minerals in the interior, and the institution of large-scale plantation production on the sugar-lands of Natal, there were no black wage-earners to threaten the civilised standards of a white worker. And the white wage-earners were themselves few.

Now the clash is everywhere occurring, and upon South Africa's handling of the conditions which produce it will depend much more than its own future. For the situation is ominously typical of that which the world at large must sooner or later have to face. What is to be the adjustment of the economic system upon which "white" Western civilisation rests to the millions of primitive workers of coloured races, who are now being brought within its orbit? The fond delusions, still entertained in some quarters in South Africa under the name "Segregation," that the native can be brought into the white man's economic system for productive purposes and excluded from all relation to it for social purposes, is steadily disappearing. It is the certainty that profound social reactions must ensue, especially where white and black live in close contiguity, that accounts both for the present groping perplexity and confusion of South African opinion, and for the incalculable significance of the South African experiment for the world at large. History and geography have combined to render the Union a specially equipped human laboratory for experiment upon the most bewildering and perhaps most momentous social-economic problem of our time.

That being so, South Africa cannot complain if she and her doings are subjected to close scrutiny by an outside world that has a vital interest in the issue. What she has a right to demand is that the scrutiny shall be inspired by a desire on the part of critics to be both well-informed and sympathetic. Lord Olivier satisfies the first condition much more convincingly than he does the second. He shows how a large class of wage-earning native workers has been called into being by the application of large-scale methods of production in the development of South African resources; how workers of that class continue to live on a low standard; how the skilled white worker derives a sort of rent from the relative under-payment of the unskilled black labourer; how the result is to produce a wage-scale with no middle as it were, having the £1 a day of the skilled artisan at one end and the 3*s*. 6*d*. or 4*s*. a day of the unskilled native at the other; how the great army of "poor whites" is constantly being recruited from

those who cannot hope to earn the £1 of the skilled man and yet scorn to work for the 4*s*. of the Kafir along with Kafirs; how a Labour Party arises which is more concerned to defend the privileged position of the white man by colour bars and prohibitions than to stimulate in every possible way such a rise in the Kafir standard of living as would help to close the disastrous gap; how an agrarian system, resting also on coloured labour, and deriving from simpler economic conditions when land was plentiful and the product demanded from it no more than was needed for subsistence, has encouraged the growth of a large class of rural "poor whites" who now tend to crowd into the towns to swell still further those lower ranks of labour which the Kaffir is more and more entering.

These, and the other characteristic results of the factors at work, Lord Olivier etches out with mordant but true precision.

Of the factors themselves he also shows just understanding up to a point. Thus he understands and makes allowance for the traditional attitude of the pioneering Boer, to whom the Kafir was always either an enemy or a servant, never to be thought of as a fellow-citizen. The modification of that attitude to meet the conditions of a world of great mines and factories and trade unions and wage-boards is a process that must take time.

He understands also, though he subjects to much more caustic treatment, the motives of a Labour Party striving sincerely, if sometimes mistakenly, to keep standards and emoluments of labour "white."

Yet with all this understanding, both of the economic process itself, and of the psychological factors which determine South Africa's present attitude towards its consequences, he has written a book which is far more likely to irritate than to instruct just that body of South African opinion which stands most in need of instruction. South Africa is not incapable of realising the need for expert advice and criticism from outside, as she has shown on more than one occasion by inviting distinguished economists from England, from Holland and from America to advise her on economic policy. It is not the bare fact that Lord Olivier criticises with so much point and force that will cause irritation and resentment. The real sting of the book can be realised only by those who have spent some time in South Africa and have lived themselves into the spirit and temper of its people. Its tone is apt to be sometimes contemptuous, often bitter, and sometimes half-condescending, as when the author suggests that South African opinion as a whole has remained largely

untouched by the sweeping movement of emancipation that characterised the nineteenth century.

What has to be remembered with sympathy and something of the humility of the publican in the parable, who knows himself also to be a sinner, is that South Africans of European origin are very ordinary human beings placed by Fate in a situation that demands the foresight and restraint of moral and intellectual supermen. It is doubtful whether any other community of Europeans in the same circumstances, and under the same stress, would have acted differently. Nor would it call for much ingenuity in a South African who cared to undertake the task to establish significant parallels between the attitude of the dominant whites in South Africa towards coloured labour, and that of a very large section of the English ruling class towards English "working classes" to-day. The mixture of condescension, fear and inability to grasp the full significance of a common citizenship might be found in both cases.

Lord Olivier admits that the transition from pastoral to industrial economy in South Africa under conditions other than those of "capitalist industrialisation" might have been conceivable though hardly possible. As a matter of history, what else could have happened? Grant the presence of the white man under nineteenth-century conditions and all the rest follows. Is it suggested that the white man should never have attempted to settle in Africa at all? Or that, once settled, he should not be strongly influenced by fear for the maintenance of his "white" order of life? There is, fortunately, a strong and growing body of opinion in South Africa that realises the fatal consequences that any attempt to maintain white standards by systematic checking of the economic progress of colour must bring. And this opinion is strong enough even in white Trade Union circles to give rise to increasingly serious division. Moreover, so far from being unconscious of the possibilities of capitalist industrialisation, the average South African has been so much alive to it that his apprehension has given rise to the present party system. Jealousy of "capitalist" manipulation from outside has been one of the main causes of the rise of the Nationalists as a party, aiming at self-sufficiency rather than secession, and here is its main affinity with Labour.

The conclusion one would be disposed to draw who has watched for some years the development of South African opinion in South Africa itself is that in spite of many crudities, much disastrous shortsightedness, and much distortion by fear and prejudice,

the people are steadily becoming more intelligently aware of the real causes of the *malaise*, much as Lord Olivier has diagnosed them. At the same time they are becoming more firmly resolved to face their own problem and shape their own future, knowing that in doing so they are engaged in no academic analysis, but in a very real and precarious adventure, which, in many respects, is a new thing in history.

There are abundant signs in most significant quarters of a growing realisation that the white man's order of life is to be protected from the black man only by fully sharing it with him. But to assume that the Bantu people in the mass are likely to be capable of anything like equal citizenship with the Europeans in the mass within any comparatively short time is to misunderstand the essential facts of the whole situation. The great majority are still living the most primitive of lives, and a long and painful process of patient instruction will have to be undergone before the white man can feel secure and in no need of artificial barriers.

No doubt there is great and growing discontent among natives. But its nature should not be misunderstood. Discontent is not misery. The Kafir is discontented just because the white man has enabled him to catch a vision of better things, and in spite of everything has caused him to hope. The South African misery that Lord Olivier anatomises with so relentless a scalpel, if it exists at all, is to be found not so much among the Kafirs as among the poor whites, the failures of circumstance and character among the white men. It is the anatomy of that misery, carried out with such invaluable aid as that of the recent Economic Commission, which is doing so much to instruct South African opinion in the pathology of its own body social.

The Kafir, both in the town locations and in the kraals of the reserves, might appear to be living in conditions which *ought* to make him miserable as the European eye sees them. But if he really is miserable, his cheerful countenance and jaunty, humorous air, indicate a capacity for dissembling his real feelings which the most hardened politician might envy.

F. CLARKE

University of Capetown.

La Questione Agraria in Russia, prima e dopo la Rivoluzione. By DR. J. G. KRETSCHMANN. (Piacenza: Federazione Italiana dei Consorzi Agrari. 1926. 8vo. Pp. 330. 25 lire.)

Die Landwirtschaft des Sowjetbundes. Der Weltmarkt für agrarische Erzeugnisse. Heft I. VON A. W. TSCHAJANOFF, Professor der Landwirtschaftlichen Akademie in Moscau. Herausgegeben von PROF. M. SERING, Universität, Berlin. (Berlin: Paul Parey. 1926. Pp. 40.)

DR. GRIZIOTTI KRETSCHMANN'S valuable work deals with the Russian agrarian question in the last sixty years, from the abolition of serfdom (1861) to our days. The author has utilised all important works upon this subject, and gives a clear and impartial account of agricultural conditions under the Imperial Government and of the changes wrought by the Revolution. According to Dr. Kretschmann revolution has not enriched the rural class. The increase in the average size of holdings of land resulting from the expropriation of Crown, Church and private estates varies in different provinces from 0·007 to 0·77 dessiatinas (0·0175 to 2·079 acres) per head. In the central agricultural region, where the shortage of land was most acute, this increase was approximately 0·2 to 0·4 dessiatinas (0·54 to 1·08 acres) per head. "These are impressive figures," says Dr. Kretschmann, "when one remembers all the struggle, destruction and bloodshed through which so insignificant a result was attained!"

One result of the Revolution was the increase of small holdings. Whereas in pre-Revolution days holdings under 4 dessiatinas (10·8 acres) formed 51·1 per cent. of the whole number of homesteads, in 1919 their proportion attained 74 per cent., whilst those of landless homesteads and of those possessing over 4 dessiatinas correspondingly decreased. This process of levelling was followed by the reduction of the average sowing area per family from 3·44 to 2·7 dessiatinas (9·28 to 7·29 acres). From Soviet sources the author gives a comparison of the purchasing capacity of the peasants in pre-war days and in 1919–20, showing that whereas the rural population could formerly purchase goods to the value of 22 rubles 43 copecks (£2 6*s.* 9*d.*) per head, now their purchasing capacity is only 3 rubles 41 copecks (7*s.* 1*d.*) per head. In 1912 the peasants purchased 2·4 milliard gold rubles' (£249·6 millions) worth of manufactured goods. In 1919–20 only 250 million gold rubles' (£51 millions) worth. And the author sums up: "It is a mistake to think that the Revolution

has enriched the peasants. . . . War and civil war, famine and epidemics raging in many provinces, have impoverished the peasant masses, who live now in greater poverty than formerly."

Dr. Kretschmann makes a special study of the land legislation of the Soviet Government, and demonstrates the complete failure of the Socialist experiments of 1918 and 1919 imbued by Marxian theories, and examines the Land Code of 1922, which in many points follows Stolypin's land laws. This Code has definitely ended further Communist experiments, and we may add that, having apparently been drafted by specialists of the old regime, it embodied several improvements upon pre-war legislation, such as the establishment of a limit of parcellation of holdings, or the extension of the right of possession of the holding to all members of the household, improvements advocated by many in pre-war days.

The author shows the heavy burden of taxation weighing now on the rural population, and the Government's indifference to the farmer's plight. The increasing export of grain, according to Dr. Kretschmann, is effected not from an existing surplus, but at the cost of depriving the Russian people of the very means of existence. Thus in 1923 the total production of cereals was 2,153 million puds (34·4 million tons), whereas the quantity of grain needed for the nourishment of the population (together with 500 million puds needed for sowing) was estimated at 2,400 million puds (38·4 million tons). In spite of this, some 46 million puds were exported, whilst at the same time relief organisations imported some 3·4 million puds to feed the population of provinces stricken by the famine. Dr. Kretschmann emphasises the fact that whereas in pre-war days Russia exported chiefly wheat and barley, the present export deals principally with rye, which has a limited market abroad and cannot form a solid base of export.

A question upon which we disagree with the author is that of the "mir," or the old communal system of utilisation of land. It is true that this system prevails in the greatest part of Russia, individual holdings forming only 0·1 to 10·1 per cent. in various regions, and only in White Russia attaining 24·5 per cent. of the total holdings. Dr. Kretschmann seems to incline towards this communal form of holding, and believes that within it agriculture may progress. This makes him judge Stolypin's reform as one of the motives of which were chiefly political, to promote the formation of a strong and conservative class of farmers. Dr. Kretschmann's reference to Western Russia, where some of the initiative for improved cultivation came from the communities, is a strong

argument against himself, for it is precisely in those Western provinces that individual tenure of land had the greatest success, as can be seen from the table given by the author on p. 283. Stolypin's reform had no doubt a political purpose, but, more than that, it aimed to give to individual owners of land the right and possibility to improve and intensify land culture, a possibility of which they were deprived under communal tenure. And, as Dr. Kretschmann rightly observes, it is not in any increase in the size of holdings that the solution of the agrarian crisis is to be found, but in the intensification of culture.

Professor Tschajanoff's pamphlet serves as a good supplement to Dr. Kretschmann's book, by giving more detailed figures and maps for the years 1923–24. We may observe that, however interesting, these figures must be accepted with a certain reserve, for, as Dr. Kretschmann says in his preface, Bolshevik statistics sin by excessive optimism, and figures taken from different sources, even official, are rarely concordant. Professor Tschajanoff's figures seem to err on the side of optimism. Nevertheless there is no doubt that a certain effort has been made in the last few years to raise productivity, especially as regards technical cultures, such as cotton, sugar-beet, flax and hemp, some of which had nearly disappeared. Professor Tschajanoff wishes to prove that the reduction in the area of cultivation of wheat and of the cultures of cotton and sugar-beet was chiefly due to "insufficient relations with the world market." This assertion needs to be confirmed by further statistics which the author fails to give, and we are more inclined to agree with Dr. Kretschmann that, on the contrary, the fall in the export of wheat is chiefly due to the liquidation of large estates, which were the principal sellers of this produce.

But on the whole Professor Tschajanoff's tables show that the country is recovering from the Revolution, and he notes the interesting fact that in the latest period a certain differentiation is to be observed amongst the homesteads, which is witnessed to by the revival of hired labour, an institution which had ceased to exist, not only owing to legislation, but also because of the disappearance of large holdings.

G. BENNIGSEN

Farmers of Forty Centuries ; or Permanent Agriculture in China, Korea and Japan. By F. H. KING. (Jonathan Cape. Pp. 379. 12*s.* 6*d.* net.)

THE re-publication of this book, which first appeared in 1911, is very apposite at a time when the Western peoples are looking at China with no little apprehension about the effect of the modern disintegrative religion that we roughly call Bolshevism upon that vast, toil-enured population which has hitherto been bound so straitly by traditions of obedience to authority.

It might be thought that after so long an interval the book should have been revised, since China has latterly been penetrated by American agricultural experts, and Japan has considerably developed her scientific agricultural service. But amplifications or corrections in detail would have done the book very little service; it is essentially a sketch, an impression, and it owes its value to the freshness with which is was written, to the fact that it records the first enlightened contact of a trained observer with the farming of the Far East. Actually the author never saw the book through the press; he died as he was writing the last chapters and it was finished for publication by his widow. At the beginning of this century King, of Wisconsin, was among the best known investigators of the soil in America. He left Wisconsin for the Bureau of Soils in the Department of Agriculture but, dissatisfied with the conditions under which he was expected to work in a bureaucratic administration, he resigned, and embarked upon the journey to China and Japan of which the book before us is a record. Though cast in the temporary form of an account of travel, the value of the book is due to King's presentation of the two great features of the agriculture of this region—a system of farming which supports upon the land a population of incredible density, a system also which over the long period (forty centuries is but a guess) has succeeded in maintaining the fertility of the soil. This last fact is perhaps more striking to an American than to a European observer. The American is only too conscious that the methods of farming in vogue in the United States have been little better than mining into the initial resources of the virgin soils, so that even in the fertile Middle West crop production is not what it was. By the close of the nineteenth century the typical pioneer farmer was looking for new lands to exploit. In Europe we have settled down to a more conservative system of cultivation, and there is no evidence of approaching soil exhaustion in the fields of Italy, Gaul, or Flanders, which must have been

continuously cropped for the last two thousand years. Even before the introduction of artificial fertilisers, the European system of mixed farming, whereby there was returned to the soil everything except the actual corn and meat, milk and wool, which human beings consumed, together with the recuperative action of leguminous crops like clover and beans upon the nitrogen supply, did maintain a certain level of fertility.

In China, the conservation of the resources of the soil is pushed to the last extreme by the return to the land of all human as well as animal dejecta, preparations of which constitute a more universal fertiliser than even the dung made by animals. In this way the land need never lose fertility. Regarded as a machine, the adult man is merely burning up the carbonaceous constituents of the food which the plant originally obtained from the air. The nitrogen, phosphoric acid and potash which the plant took out of the soil pass through the man without loss and re-enter the eternal cycle of growth. The nitrogen compounds alone are subject to wastage by bacterial decompositions, but there are compensatory bacterial syntheses in the soil. In a temperate climate the level of constant cropping that may thus be obtained is not very high, and for production near the maximum artificial fertilisers must be used, in order that the plant may not be stinted in any stage; but in China temperatures are high enough to permit of rapid utilisation of the organic manure residues.

Chinese agriculture is only to be compared with our market gardening of the most intensive and minute description, raising two or three crops a year on areas of two acres or so per family. King describes a family of twelve on $2\frac{1}{2}$ acres, another of ten on $1\frac{2}{3}$ acres, while the island of Chang-ming in the mouth of the Yang-tse carried 3,700 people per square mile on 270 square miles, which only included one city. England, with four-fifths of the population in cities, only reaches a density of 200 per square mile, yet we produce less than 40 per cent. of the food we consume. In China and Japan we find purely rural populations of 2,000 to the square mile that are entirely self-supporting. In such communities all are at work, men, women and children, and the greater part of the labour is expended in producing the food consumed by the community; there is only a margin for sale, and a correspondingly small cash return available for the purchase of clothes and the other necessaries of life. Really organised farming on the Western allowance of land, *i.e.* somewhat more than 2 acres for each person, could produce the food for the community on the labour of about 5 per cent. of the population; in the East the

corresponding figure may rise as high as 80 per cent. Such is the inevitable result of the pressure of population among peoples who, heedless of any standard of living, will breed right up to the dangerous edge of sustenance, with recurring local famines whenever seasons prove unfavourable, as the only check to increase. As land becomes more precious, labour is of less and less account, just as the deserted crofts of the Highlands and the grass fields of Middlesex are evidence not that men cannot live on them, but that labour has become dear and that more money has been earnable in occupations other than farming. King gives many examples from which we can estimate how low is the standard of living; a labourer's wage was about 6*d.* a day of pre-war currency, yet the people have a real civilisation of their own and are not without cheerfulness and content.

We might view the Chinese situation with equanimity, with its complete fulfilment of what appears to many men the desideratum for England, *i.e.* high farming on every available acre and a maximum employment of men and women on the land, were it not for its necessary reaction upon our own civilisation. The Western peoples are in the process of restricting their multiplication in order to maintain their standard of living, but something more than birth control will be required to ward off the competition of the East. Even now in London you may buy Chinese pork, Chinese eggs, and foods made from Manchurian soya beans. That perhaps matters little; the nation must have cheap food, and if English farmers and farm labourers cannot produce at the Chinese level they are in effect told that it is their own fault in being such fools as to have engaged in farming. But in other industries the capitalist is looking longingly at the vast reservoir of cheap labour China exhibits, a land also not without coal and iron. Westernisation [*i.e.* exploitation] has begun; a little more organisation of these millions of enduring but skilful craftsmen, and prices may be cut till there is no longer a margin from which to pay Western rates of wage. Is there a Gresham's Law in labour as in currency, or how is one to prevent the lowest standard of living approximating all others to it? These are far-reaching questions, but they are suggested by a reading of King's book, for though it is only concerned with agriculture, it is agriculture which sets the stroke in Chinese life to-day.

A. D. HALL

Problems of Industrial Development in China. By HAROLD M. VINACKE, Professor of Political Science in Miami University. (Princeton University Press, and Henry Milford, Oxford University Press. Pp. xi + 205.)

THE subject is important enough to demand presentation by a competent writer possessed of first-hand knowledge of the situation. The present author, despite the claim made for him on the cover, that he is "an authority on China," can hardly be placed in that category. Nevertheless, in default of such an author it is right to acknowledge respectfully an attempt made by one who is largely dependent on others for most of his facts.

Since the book was written the situation has seriously changed, and while the problems remain the same and will have to be met, a number of his positions and statements are not supported by present facts. One of his principal sources of information is that valuable annual, the China Year Book, and the author might well have referred to a later edition than that of 1921–2. For instance (p. 149), he says in regard to railways—"Practically all of the lines in operation to-day, even with the disturbed condition of the country, show a profit after the loan charges, as well as the operating costs, are deducted." That may have been the case in 1921. It is not the case now, and the impoverished investor can only hope that a return to something like normal conditions will reward his patience. Certain it is that until his confidence has been substantially restored, further railway development must be delayed. The author recognises that a stable government is essential to the realisation of his expectations, but his suggestion (p. 155) that further railway and other loans should be secured on services to "be administered under the direction of a foreigner nominated by the bondholders and appointed by the Chinese Government" receives scant encouragement from the recent dismissal of Sir Francis Aglen and the attitude of vocal Chinese.

The first chapter gives a cursory survey of Industrial Development in China, in which the facts are rather out of date and the reasoning open to dispute. For instance, "adequate communications" are unquestionably needed, by which the people "might be better distributed throughout the country, thus increasing the agricultural output"; yet when one looks at the province of Shantung, doubts arise. Improved communications have enabled a very large number of emigrants from that province to settle in Manchuria, but Shantung seems as over-populated as ever. The author anticipates the "exhaustion of the oil resources

of the world in a reasonably short time," and judges that even if petroleum is not found in quantity in China, supplies of coal and iron, on which the " modern industrial state has been erected," are sufficient for her needs, and her " only serious lack from the standpoint of those minerals essential to industry " is sulphur in quantity. By the way, it was in the province of Shensi, not Shansi, that the Standard Oil Company drilled with indifferent success.

In textiles sheep's wool and camels' hair are two of the staple products of Mongolia, Shansi and the north. The modern woollen industry is still in its infancy and most of the wool is exported to other countries, but " should the woollen industry develop it will be long before the Chinese manufacturer will have to look abroad for any part of his raw materials." That is quite true, and there are possibilities of " the expansion of sheep grazing north of the Great Wall " and elsewhere; the author might add that probably even greater success may be expected from experiments which are being made to improve the breed of sheep.

" China can grow her own cotton of a variety suitable for modern machinery." It also can undoubtedly be improved, and possibly long staple be added to its short-staple variety; but the people must eat as well as be clothed, and cotton has to be grown at the sacrifice of food-stuffs. Unless crops of these can be increased, or supplies imported, a limit is likely to be reached in cotton growing. Already China is the third largest producer in the world. As to spinning and weaving, apart from the not " tens of thousands," but probably millions of hand-looms scattered over the country, there are modern mills containing, not " 1,500,000 spindles and 7,500 machine looms," but 3,414,062 spindles and 25,934 looms in operation, and these not in " 60 cotton spinning and weaving mills," but in 118, or double his numbers.

It would be easy to dispute his statement that " industry in China is old, older than in any of the other countries of the world," and his attribution of China's slowness in changing from " cottage industry " to " modern industry " to " the size of the country," the " difficulties of communication " and " the opposition of the gilds." In reality, the main cause was the ignorance and opposition of the Manchu Court and the high Chinese officials. Had the Government really " left the regulation of the industrial life of the country entirely to those engaged in industry," there is little doubt that the eagerness and astuteness of the Chinese trader would have found early and full expression. In like manner

"the break-up of the family tradition" has never been necessary to make the Chinese a willing coloniser. Ten millions live abroad.

The author indicates that the "function of the Government will have to change" from negative to "positive services," but he seems to place a heavier load upon it than it should be called on to bear. It was the attempt to nationalise the incipient railway system which was a prime factor in the downfall of the late dynasty, and it had already made numerous ventures in other directions. He is an advocate of the American form of protection, in order "to promote the national industry," and his governmental "positive services" include industrial experiment and organisation. His ideal of representative government in China is that it "should be based upon already established group interests in the country." By this means the direction would be in "the hands of the commercial and industrial interests of the country." This would, for the time being, ignore, or only find indirect representation for the vast mass, the eighty per cent. of the population, the unorganised, inarticulate farmers. His assumption that roads and waterways "had so completely fallen into disrepair under Manchu rule" is disputable, for in the south the canals are well maintained and the roads are mere footpaths, while in the north few roads have ever been made; they have been trodden out by the foot of man and beast. As to native carts "not being able to move for months at a time because of the condition of the roads," even one who has suffered from the miseries of the northern roads would hesitate before making such a sweeping statement.

His consideration of Governmental Finance is based on the existence of a stable central authority and a centralised financial control, but he hardly does justice to the position of the Provincial Governments and their demand for fiscal and other autonomy. Since the Maritime Customs began to remit its revenues to Peking instead of their being shared with the provincial treasuries, likin has become an important means of provincial support. The reform of Provincial Finance is as exigent as that of the Central Government.

For Currency Reform the need is wearisomely evident and it would seem impossible for anyone to over-emphasise it, but it is an unnecessary extravagance to say (p. 100) that "every transaction of any importance involves the exchange of money through several mediums, in all of which the exchange shop plays a part, and from which it draws a profit." In point of fact business transactions are done normally and with simplicity.

As to his statement in regard to silver, that "the increase in its value of recent years may serve to account for an increase in the value of" exports and imports, one need only remark that, far from the tael, or Chinese silver ounce, having increased in value, it fell from 6*s.* $1\frac{7}{16}$*d.* in 1920 to 3*s.* $6\frac{3}{8}$*d.* in 1921, and has since almost annually fallen to its present price of 2*s.* $6\frac{1}{2}$*d.* That Currency Reform bristles with difficulties the author makes sufficiently clear.

He says in conclusion—"The Chinese have a tradition of co-operation and adjustment," through their gilds, "which has been lost in the Western countries in the past hundred years. From the standpoint of industrial development it is their precious heritage. It should be the foundation principle on which they erect their new industrial order. Western machinery should be introduced, but Western industrial antagonism should be avoided." Exactly, but how? That statement only mentions, without solution, one of the chief industrial problems of China.

Despite, however, the many criticisms which these pages arouse, the general principles that are enunciated are deserving of consideration, and one can only respect the author for sympathetically facing problems of such immense difficulty, involving the welfare of a quarter of the human race.

W. E. SOOTHILL

Oxford.

A Geographical Study of Coal and Iron in China. By WILFRID SMITH, Tutor in the Department of Geography, University of Liverpool. (The University of Liverpool, and Hodder and Stoughton, Ltd. Pp. 83. 5*s.* net.)

THIS unpretentious volume of 83 pages offers a remarkable summary of the distribution and development of the Coal and Iron resources of China. "The object of this monograph is to discuss, in the light of the most recent information, the distribution of different classes of coal and iron, partly in relation to the physical structure of the country, but more particularly in its bearing on the coming industrial development of the Republic. The various factors, such as means of transport affecting the utilisation of the mineral resources, are fully considered and an estimate is made of the probable lines of development in the different mineral regions of China." The book fulfils its programme, and Economic Geography is distinctly enriched by this valuable treatise, which in succinctness and clearness can hardly

be surpassed. Two folding maps and various sketches add to the value of the book, and an excellent Bibliography will serve as a guide to those who wish to study the subject more in detail. Professor Roxby, who suggested this piece of research work to the author, supplies a suitable Foreword.

On p. 46, where it says that mining "ceased whenever the water table was pierced," one might add, "or when the limit of ventilation was reached," for I never heard of ventilating shafts in Shansi, and in the only mine I explored I was not surprised to find the men working stark naked in an atmosphere of a heated foulness indescribable. His remark on p. 27, that as "coal was mined all over South Shansi . . . no internal coal trade developed," does not seem very clear. On p. 49 his statement that in the earlier years "Chinese coasting steamers were dependent on supplies of coal within China itself" surely needs modification, for to the best of my recollection most of the coal was imported. The spelling of Chinese names without hyphenation must sorely puzzle the ordinary reader. For instance, Miaoerhkow in Chinese is three distinct words, not one, Miao erh kow. Moreover, is "nearby" an attractive word?

Those who read this book will see how closely the economic interests of Japan are dependent on China, and perhaps better understand the change which has occurred in Japan's attitude from one of unwise provocation to one of conciliation. The interests of both countries, and those of other nations, are being economically linked up in a world economy which enlightened people everywhere will see the importance of encouraging.

W. E. SOOTHILL

Oxford.

Information on the Reduction of Armaments. By J. W. WHEELER-BENNETT, Junior, Hon. Secretary, Association for International Understanding. (Allen & Unwin. 1925. 10*s*. net.)

Disarmament. By P. J. NOEL BAKER. (Hogarth Press. 1926. 12*s*. 6*d*. net.)

THESE two books are complementary to one another. The first, by an able and conscientious student of international affairs, is a fully documented history of the progress made towards solving the problem of disarmament from the Peace Conference down to the recommendation of the Geneva Protocol of 1924 to the Governments by the Fifth Assembly of the League of Nations. The second book is by a man of action who has been actively

engaged in these negotiations from the beginning, and who writes, in the light of first-hand experience, with an eye to further action in the future. Supplemented by some knowledge of what actually happened at the League of Nations preparatory conference on disarmament in the spring of 1927, a study of these two books ought to give an insight into the heart of the disarmament problem.

The root difficulty, of course, is that modern war is waged with the total material resources, and nine-tenths (let us say) of the spiritual resources, of entire nations. The bill for the mobilisation of the national resources in time of war, which was voted by the French Chamber while the Preparatory Disarmament Conference was in session, gives a fair measure (conceived, as it was, by a clear-sighted people which is not afraid of following out ideas to their logical consequences) of what this kind of warfare means. We realise that, in "the Great War," we were only on the threshold of intensive warfare as it would be exhibited in another war fought on the basis of our present experience and technical training. The next war would be "the last war" in the sense that it would be the last event in the history of Western civilisation. How is it to be avoided?

When we study these two books, we see that effective solutions of the problems with which they deal could have been found with comparative ease at almost any time in our history short of the last 150 years. In fifteenth-century Italy, for example, it would merely have been necessary to agree that not more than a certain percentage of the State budgets should be spent on the hire of mercenaries. Even in the time of Frederick the Great, when armies were the playthings of kings, and these kings were aware that they could not with impunity spend more than a modest proportion of their subjects' blood and treasure upon their private sport, the problem had still not become unmanageable. The mischief was done by the Industrial Revolution in Great Britain and the contemporary Political Revolution in France, which, between them, expanded the process of war into a *levée en masse* of the man power and the material power of an industrialised national State.

In the modern problem which thus came into existence, there are (as Professor Baker brings out very clearly) two distinct sub-problems involved—one technical and the other diplomatic. The technical problem consists in determining what elements in national life are potential means of warfare, and then devising means to measure these elements and control the production and

maintenance of them by the national Governments in peace-time. When one thinks of chemicals and aeroplanes, or again of the facility with which modern industry beats its ploughshares into swords, one perceives that this technical problem is immensely complicated. At the same time, in a civilisation with such a gift as ours for mechanical organisation, it is probably not insoluble. People who have constructed metres for gas and electricity are surely ingenious enough to construct the more complicated metre which the measurement of national armaments requires.

The crux is the political "problem of the ratio" (the title of the most interesting chapter in Professor Baker's book). Suppose we have successfully devised some means of measuring, and keeping check upon, national resources for war, on what principle are we to strike a balance between resources and liabilities or commitments? The difficulty is that the special military dangers to which particular countries are exposed are often hardly susceptible of reduction to a numerical basis of comparison. Take, for example, the question of exposed frontiers. It is obvious that Germany, lying between France and Poland, is very much more exposed than the United States, lying between Canada and Mexico; and that this difference is a factor which could not be left out of account in determining, on an equitable (*i.e.* an agreed) basis, what the relative armaments of the United States and Germany ought to be. Yet how is this difference in degree of security to be translated into terms of x battalions, y field batteries, and z squadrons of aeroplanes? It is a difference which it is easy to feel but far from easy to measure. Or contrast the naval and colonial liabilities of the British Empire, as it has emerged from the war, with those of post-war Germany. In the matter of colonial armaments, Holland might legitimately claim as high an absolute ration of armaments as France, though on every other basis of computation her ration would be very much smaller. This is also a difficult problem, since naval squadrons and colonial forces are not irrevocably anchored, or rooted, to the spot at which they are to serve in peace-time. On the contrary, they are extremely mobile, so that special peace-time allowances made under such heads may upset the general ratio in war, while, if not allowed for in the general ratio, they may unfairly handicap a Power with large commitments overseas. It all depends on whether the natives are going to take the opportunity of a general European War in order to rise against their European rulers; and who can express that probability in

a mathematical formula? Finally, what are to be the units of measurement? Are all the arms—military, naval, aerial, chemical, industrial and human—to be combined in a common index-figure, or are they to be dealt with separately? This, too, is a question on which differences of political situation produce differences of view.

The inherent difficulty of this aspect of the problem is appalling. The only way to tackle it is to thrash out all the puzzles that arise in friendly conversations between experts and statesmen who are not under the illusion that the problem is easy.

A. J. TOYNBEE

The Science and Method of Politics. By G. E. G. CATLIN. (Kegan Paul. Pp. 360. 12*s.* 6*d.*)

THERE are several reasons, in Dr. Catlin's view, why Politics has not hitherto followed the "secure path of science." Of these the most important are, firstly, the limitation of its scope to the study of a small number of states at different and not comparable stages of civilisation, and, secondly, the absence of a sound method. Dr. Catlin proposes to broaden the scope of politics by conceiving of it as the science of all the relations of individuals to each other in society, "regarded in respect of the relationship itself," and he argues that if politics is ever to provide science and not merely "shrewd seemings," it must proceed hypothetically by assuming certain motives or dominant tendencies and following out their operation in social and political life. Here he is greatly influenced by the development of economic theory. The fiction of an economic man, has been, he thinks, of great value in placing economics upon a scientific basis. Similar results may, he urges, be expected to follow from the assumption in politics of a "political man"; we must begin with some one dominant tendency in human nature, deduce the consequences that follow from it, and verify by appeal to history or experiment. This will lead eventually to the discovery of the permanent forms and general principles of action which must be the aim of a scientific politics.

The use of the abstract or hypothetical method in social science is, of course, not novel, and when applied with due consciousness of its limitations has led and may lead again to useful results. It remains to be seen whether in his future work Dr. Catlin will be able to turn the procedure he recommends to really fruitful use. Here he confines himself to a somewhat elaborate treatment

of the nature and possibilities of politics and its relation to other social sciences. It may be doubted whether even this limited task has been carried out with the requisite thoroughness. He never, for example, inquires to what extent the progress of economic theory has really been determined by the assumption of the "economic man," and whether it is really true that any economist has, in fact, based his whole theory upon the hypotheses of a single dominant motive. It is arguable that in serious work the breadth of economic motive has always been realised, though not explicitly stated. Nor does Dr. Catlin seem to realise sufficiently the degree of abstraction which his proposed method involves. In this connection, it may be noted that his view of politics as the science of human relationships bears a strong resemblance to the definition given of sociology by some German writers, and in their case it has so far led to little but barren lists of formal relationships. Dr. Catlin's actual procedure makes matters worse by the fact that it is limited to the study of a single social relationship, namely, that which arises out of the domination of one will by another and by the further limitation due to the assumption that this relationship is determined by one tendency, the so-called will to power, or the striving to avoid or assert control. Abstraction could go no further. Nor are the notions of self-assertion and of will submitted to the analysis that seems requisite if they are to be made the basis of political science. He rejects the functional analysis of institutions and seems to think that politics is concerned with willing quite independently of what is willed. In this view he seems partly influenced by his desire not to confuse ethics with politics. But a functional study need not necessarily be ethical in character, and, on the other hand, it is difficult to see how anything important can be obtained from a study of the will that wills nothing in particular.

MORRIS GINSBERG

London School of Economics.

NOTES AND MEMORANDA

The World Economic Conference at Geneva

On September 24th, 1925, the assembly of the League of Nations, on the motion of the French Delegation, invited the Council to constitute a Preparatory Committee to prepare the work for an International Economic Conference. In November 1926 this Committee, which sat (owing to the ill health of M. Ador, its original chairman) under the presidency of M. Georges Theunis, issued its report and completed its very comprehensive scheme of documentation. From May 4th to 23rd, 1927, the International Economic Conference met in Geneva under the same Chairman, and produced a Report [1] which is among the most important and remarkable documents which has yet appeared under the auspices of the League. For so large a body, composed of such widely different elements, to have made with apparent sincerity unanimous and categorical recommendations on subjects generally regarded as highly controversial, is proof, not only of the genuine goodwill of the delegates, but also of the recognition by the countries of the world as a whole, and by post-war Europe in particular, of the economic interdependence of them all, and the fact that, in the words of the Report,[2] " any strictly nationalistic policy is harmful not only to the nation which practises it, but also to the others, and therefore defeats its own end."

The delegates came from fifty nations, and were grouped principally in delegations appointed by the various Governments, but not officially representing them. They comprised every qualification and every shade of responsible opinion—industrialists, business men, agriculturalists, financiers, Government officials, economists, labour leaders, to the number of 194, attended by 157 experts. Almost the only occupation which was comparatively unrepresented was the professonal politician, and there can be little doubt that the non-political quality of the Conference was to a large degree responsible for its success in dealing with economic problems.

In addition to the national delegations, there were present

[1] *The World Economic Conference, Geneva, May* 1927, *Final Report* (C.E.I. 44 (1)) League of Nations. 1*s*.

[2] p. 20.

others at the direct invitation of the Council of the League, such as the International Labour Office, the International Institute of Agriculture, the International Co-operative Alliance, and particularly the International Chamber of Commerce. There were also present delegates from the principal women's organisations who contributed *inter alia* a proposal for the standardisation of household utensils. It would be invidious and, indeed, impossible to choose particular delegations or particular individuals for special mention, though naturally these varied in effectiveness, and more attention inevitably tended to be paid to the pronouncements of the principal spokesmen of the larger European Powers. It is, however, impossible not to remark upon the surprising weakness of the Soviet representatives, whose participation was expected to be at least interesting. In fact they did little more than attempt some unsuccessful back-stair negotiation, carefully indicate their reservations on all points remotely in opposition to their theories, quote inconsistent statistics and declare categorically that they had no intention of joining the League, which they regarded as a syndicate of capitalists.

On the other hand, the delegates from the other principal non-member state, the U.S.A., were most valuable. They brought to the Conference an outside view of what are primarily European problems, and did not hesitate to express it with great clarity and tact. Perhaps the most cogent summary of their opinions is to be found not in the words of any one of them at the Conference itself, but in the words of the American National Committee of the International Chamber of Commerce.[1] "It is generally recognised that the absence of trade barriers throughout our whole area, nearly as large as Europe itself, renders unnecessary in the United States many of the steps desirable in Europe. Instructed by our own experience, the American Committee feel that substantially similar freedom of commerce and trade in Europe would inevitably result in great benefit to the European peoples." The Americans seemed to feel strongly that something like a European *zollverein* would be of great benefit also to themselves.

The documentation issued by the Preparatory Committee was immense.[2] It constitutes in effect a detailed economic

[1] *International Chamber of Commerce: Final Report of the Trade Barriers Committee*, Brochure No. 45 (C.E.I. 5 (1)) p. 32.

[2] A full list of the documents, together with an introduction by Sir Arthur Salter (Head of the Economic Section of the League) and a summary, is contained in the *Guide des Documents préparatoires de la Conférence* (C.E.I. 40), published by the Secretariat of the League.

survey of the world prepared by and for specialists, and it is most unlikely that any delegate has read the whole of it.

But the three documents which seemed to exercise most influence and whose substance was most frequently quoted were the Memorandum on Production and Trade (C.E.I. 3), Summary Memorandum on Various Industries (C.E.I. 19), and "in certain respects the most important of those submitted to the Conference," the Report of the Trade Barriers Committee of the International Chamber of Commerce (C.E.I. 5 (1)). The first two are statements of fact, the last is, with one exception,[1] the only preparatory document which suggests lines along which action should be taken. It represents the considered opinion of the Chamber's Committees in twenty-two counties, and a comparison between it and the final Report of the Conference emphasises the extent to which what may be called the attitude of the man of affairs prevailed.

The first four days were spent in plenary sessions, and were occupied principally in the creation of atmosphere. The impression left at the end of them was that the Conference was agreed on two facts: first, that the world's economic troubles are the result not so much of the material destruction of the war as of the dislocation of international trade which it involved, and second that the artificial barriers to trade introduced in consequence of this dislocation had outlived the conditions which produced them, were too numerous and ought to be diminished. There was a fairly general agreement as to the nature and relative importance of these barriers, and if there was a tendency among the smaller and younger nations to regard criticism of them as applying only to their neighbours, from which they themselves, owing to the peculiar circumstances of their national situation, were exempt, it was on the whole decently concealed. After these preliminaries, the Conference divided itself into three main committees—Commerce, Industry and Agriculture—and the serious business began.

The Agricultural Committee met under the Chairmanship of M. Frangesch (Jugo-Slavia), and concerned itself mainly with questions of agricultural co-operation and technique. It recommended an increase in agricultural co-operative societies for almost every purpose, closer relations between them and consumers' co-operative societies, the better organisation of agricultural credits, more complete statistics, a sterner campaign on international lines against disease, and so forth; but perhaps the

[1] Abolition of Import and Export Prohibitions and Restriction: Commentary and Preliminary Draft International Agreement. C.E.I. 22.

most significant feature of its report is the expressed realisation of the interdependence of agriculture, industry and commerce: "It would be vain to hope that one could enjoy lasting prosperity independently of the others."[1]

The Industrial Committee was on the whole disappointing. M. Hodač (Czecko-Slovakia), who presided, showed great unwillingness to curtail discussion on any subject that his very loquacious members chose to embark upon, and in consequence the discussions ranged over almost every conceivable field, from social justice to the future economic organisation of the League. Most of what was said came under the heading of "rationalisation," a word which, like "solidarité" and "hommes de bonne volonté," seems to thrive in the air of international conferences. One of its purposes was apparently to smell sweeter than "scientific management," but it also covered the organisation of international industrial *ententes* and cartels. The French, and to some extent the German view was that a great deal could be done by widespread cartellisation, but this roused considerable misgivings among the representatives of labour, who pressed strongly for an international organisation under the League to keep the cartels in order. That, it was contended on the other side, would interfere with the freedom of business, and constitute in itself a trade barrier. Finally from these parturient mountains there was born a series of resolutions which really amount to very little more than saying that if cartels behave themselves, they may be, in the comparatively limited field where their application is practicable, a good thing. This is coupled with a recommendation in favour of standardisation and the publication of more industrial statistics.

By far the most effective and important work was done in the Committee on Commerce, under M. Colijn (Holland). Here, thanks very largely to the extreme firmness and good humour of the Chairman, almost unanimous agreement was reached on matters where immediate and beneficial action is possible. M. Colijn's methods were drastic; it was a typical occasion when he thanked a rather too persistent delegate for facilitating the work of the Conference by dropping an amendment which the unfortunate gentleman had that moment proposed, replied to his protest by saying that he was sure the proposer would not wish to put the chair in the unfortunate position of having made a mistake, and immediately passed on to the next item. But his methods were successful, and from the three sub-committees of

[1] Report, p. 44.

his section (over the second of which, "Customs Tariffs and Commercial Treaties," he himself presided) comes the bulk both in substance and value of the Report.

The briefest summary of this section of the Report is to say that it is a strong recommendation in favour of "freer trade," which is not to be confused with "free trade." Indeed the Conference was throughout at great pains to avoid the (largely political) issues between free-traders and protectionists, a wise and necessary course which alone made it possible to secure a unanimity whose full extent can only be appreciated by a detailed study of the Report. Beginning under the heading Liberty of Trading, it "has condemned the system of import and export prohibitions and the privileges sometimes granted to State enterprises, and has also recommended a more liberal policy in respect of foreign nationals and companies in the exercise of their commercial activities."[1] In connection with the first of these, it blesses the Draft International Convention[2] for their suppression, and under the last includes a recommendation for an international convention to secure legal and fiscal equality as between nationals and foreigners and to avoid double taxation. Reference is made to the work of the International Chamber of Commerce on these matters.

. The second section deals with Customs Tariffs, which are treated from the point of view first of form and secondly of amount. On the first point the Conference "unanimously recognised the desirability of simplifying Customs tariffs as far as possible, particularly by avoiding unwarranted subdivisions: it has proposed the establishment of a systematic Customs nomenclature, the use of which would in due course be assured by individual measures taken by the Governments and regularised by the conclusion of bilateral or multilateral international conventions; it emphasised the urgent necessity of stabilising Customs tariffs, by the conclusion of long-term commercial treaties or otherwise; it recapitulated rules for securing the maximum of equity in the application of duties and defined the principles on which Customs formalities should be based; and finally it passed a recommendation in favour of the execution, to the fullest possible extent, of the Convention of December 31st, 1913, establishing an International Bureau of Trade Statistics."[3] It should be noted that the importance of stable

[1] Report, p. 20.
[2] C.E.I. 22, to which reference has already been made.
[3] Report, p. 23.

tariffs to enable traders to enter upon long-term contracts was repeatedly emphasised by several delegates.

The height of customs tariffs is treated under Commercial Policy and Treaties. After a concise and dispassionate account of the present tariff situation and its causes, and a short discussion of commercial policy [1] (a most able summary), "The Conference declares that the time has come to put an end to the increase in tariffs and to move in the opposite direction. The Conference recommends:

(1) That nations should take steps forthwith to remove or diminish those tariff barriers that gravely hamper trade, starting with those which have been imposed to counteract the effects of disturbances arising out of the war.

Moreover, in order to ensure that this action is continuously pursued, the Conference recommends:

(2) That States should proceed to the conclusion of commercial treaties on lines and under conditions calculated to ensure the attainment of the aims mentioned herein;

(3) That, in future, the practice of putting into force, in advance of negotiations, excessive duties established for the purpose of bargaining, whether by means of tarifs de combat or by means of general tariffs, should be abandoned;

(4) That the Council of the League of Nations should be requested to instruct its Economic Organisation to examine, on the basis of the principles enunciated by the present Conference, the possibility of further action by the respective States, with a view to promoting the equitable treatment of commerce by eliminating or reducing the obstructions which excessive Customs tariffs offer to international trade.

In this inquiry, the Economic Organisation should consult with representatives of the various Governments, including non-Members of the League, and also, so far as necessary, with the competent bodies representing Commerce, Industry, Agriculture and Labour.

The object of the inquiry should be to encourage the extension of international trade on an equitable basis, while at the same time paying due regard to the just interests of producers and workers in obtaining a fair remuneration and of consumers in increasing their purchasing power.[2]

[1] Report, pp. 27 *sqq*.

[2] Report, p. 30.

"With the question of import duties is bound up the question of the fiscal burdens which are sometimes imposed in addition, and which, in the Conference's opinion, should not aim at providing disguised protection for national production.

In a similar connection, the Conference is anxious that the free circulation of raw materials and articles of consumption should not be unduly hindered by export duties, and that such duties, whether levied to meet fiscal needs or exceptional or compelling circumstances, should not discriminate between different foreign countries.

Lastly, commercial treaties should contain the unconditional most-favoured-nation clause in its broadest and most liberal form, and the League of Nations is recommended to consider the possibility of establishing clear and uniform principals in regard to that clause and introducing common rules relating to commercial treaties." [1]

The next section deals with indirect methods of protection and transport discriminations.

"The Conference draws the attention of the various Governments to the true nature of direct or indirect subsidies, which are merely a palliative, and expresses the hope that Governments will, so far as possible, refrain from having recourse to them." [2]

The paragraph on Dumping is interesting. An attempt was made to introduce some recommendation excepting anti-dumping and safeguarding tariffs from the general condemnation, but the difficulties of definition and the fear of leaving open a by-road for covert protection defeated this proposal, and, in fact, the Conference "recommends that importing countries which find themselves compelled to take defensive measures against dumping should not resort to excessive, indirect or vexatious measures which would have a more far-reaching effect than is intended." [3]

Transport, as the Report indicates, has put its house in order. The problems have been tackled, the conventions are there and the Conference, after an introduction to this effect, had little to do but urge their speedy ratification and recommend the conclusion of agreements between maritime countries, recognising the equivalence of each other's safety regulations on board ship.

The Report was drafted in sub-committee, approved in committee and confirmed in full session, unanimously but for the Russians and the Turks, who abstained from voting. The specific recommendations were rounded off by resolutions referring to education, armaments, pacific commercial co-operation of all

[1] Report, p. 27. [2] Report, p. 33. [3] Report, p. 34.

nations,[1] and the economic organisation of the League, which contain nothing remarkable. In connection with the last-named the Council's attention is drawn to the well-balanced composition of the Preparatory Committee.

The Conference, then, has marked a further stage in the economic reconstruction of Europe in particular. It is not to be expected that its recommendations will be followed at once by unanimous action, although several states have already declared their intention to adhere to them, and others have treated them with more than mere politeness. How far practical results are likely to materialise is yet to be seen. "We must not forget," said the President, "that our success will depend on the measure of our perseverance." But whatever fate its recommendations meet with in the hands of the politicians and the Governments, the impression left on the great majority of those who took part in the Conference was that behind the usual rhetoric and the usual lobbying there really did exist a genuine desire to achieve what was recognised to be a common end. That, which is something still novel in post-war international affairs, is perhaps best expressed by a further quotation from M. Theunis' closing speech:

"We have worked loyally together to secure economic peace, on which, indeed, political peace depends. This Conference is an assembly of persons who have been brought into touch with realities—always harsh and often disappointing—but with realities in which truth, sooner or later, always prevails. Our advice and recommendations will in all probability not be followed immediately on the scale we would desire. Great movements frequently experience many difficulties at the outset. But we are convinced that our work is based on true principles, and on the determination to ensure to the best of our power both the peace and the prosperity of the world."

W. LESLIE RUNCIMAN

MODEL FORM FOR STATEMENTS OF INTERNATIONAL BALANCES

THE International Chamber of Commerce appointed some little time ago a Special Committee to study the transfer problem arising out of the international payments involved in German Reparations and Inter-Allied Debts. In the course of its inquiries

[1] This included recognition of the reservations made by the U.S.S.R., to whom certain only of the general recommendations were held to apply.

this Committee found itself in difficulties owing to the absence of any satisfactory and comparable statements of international indebtedness arising out of the current transactions of any period. This led to the appointment of a special Sub-Committee, consisting of Professor Charles Rist, Vice-Governor of the Bank of France, Dr. H. Bücher, Mr. J. M. Keynes, Dr. H. E. Chandler of the National Bank of Commerce in New York, and Professor F. Baudhuin, which met in Paris in April 1927 to consider the possibility of drawing up a uniform model with a view to a clarification of the existing confusions.

Since the Economic and Financial Section of the League of Nations had been endeavouring for three years past to collect and publish Balance of Trade and Balance of Payment statistics from the various Governments of the world, the Committee decided to take the League of Nations' classification as the basis of their work. With the assistance of Mr. J. H. Chapman of the Economic and Financial Section of the League of Nations, they drew up the classification set forth below.

The main difficulties really arise more in the actual collection of statistics than in the accurate classification of them to which the Committee's task was limited. But they felt that it might lead to some progress in the statistical departments of the leading countries if they had before them a model of the information which it is desirable to set forth, subject always to the practical difficulties of collecting it. The explicit inclusion of a figure for the "unexplained discrepancy" as a balancing item may do something to avoid or mitigate the too frequent "adjustment" of the figures to produce a spurious appearance of accuracy of which the actual statistics are not capable.

INTERNATIONAL BALANCE OF PAYMENTS
CREDITS ARISING FROM :

I. Merchandise

1. *a.* Merchandise, including silver bullion, exported (as per trade returns [1]), not including ships or parcels post.

   Note.—Including fish sold in foreign ports and analogous sales of commodities not already included in statistics of exports.

   b. Sale of ships.

   c. Parcels post.

[1] It is assumed throughout that colonies and dependencies are not included with the mother-country.

2. Adjustment for under- or over-valuation of (1):
   a. to arrive at f.o.b. value;
   b. to convert "official" values which may relate to a prior date, to *current* "market" values;
   c. to correct bias in traders' declarations, *e.g.* where there is a tariff;
   d. to include exports (or imports) of commodities under Government auspices (*e.g.* reparation deliveries in kind) which do not appear in the regular trade returns;
   e. to adjust the statistics to agree with the political territory (*e.g.* mother-country, excluding colonies).
3. Contraband.

II. Bullion, Specie and Currency Notes

4. Gold bullion and gold specie exported (as per trade returns).
5. Specie (other than gold) exported (as per trade returns).
6. Currency notes not elsewhere indicated, exported.
7. Adjustment for under- or over-valuation of (4) and (5) in order to arrive at the commercial value f.o.b.

III. Business Services to Foreign Countries

A. Transport Services:

8. Shipping freights,[1] charter money, passage money and similar earnings, received by national ships on account of all foreign trade.[2]
9. Port receipts from foreign shipping in national ports.
10. Transport and other charges received for foreign goods transhipped or in transit (if not included in Group I, Nos. 1 to 3).
11. Post and telegraph and telephone earnings, not elsewhere indicated.

B. Trading Profits and Brokers' and Merchanting Commissions:

12. On exports and re-exports not included in f.o.b. price.

[1] Maritime freight on goods imported in national ships, which is included herein and also in Group I of imports (debit side), amounted to approximately . . . during the year. Reciprocally for credit side . . . in foreign ships . . . excluded herefrom but included in Group I amounted to approximately . . . during the year.

[2] Foreign shipping trade here means all shipping trade other than domestic coastal trade.

13. On commodities not entering into the country's imports or exports.

C. Banking and Financial Services :

14. Acceptance commissions.
15. Discount on foreign bills.
16. Commissions on issues of foreign loans.
17. Profits on Exchange transactions.
18. Bank interest.

D. Insurance Services :

19. Insurance services.

IV. Interest

20. Interest received on foreign Government and municipal loans.
21. Other interest and dividends received from capital invested abroad.

V. Other Current Items on Private Account

A. Immigration and Emigration :

22. Funds brought in by immigrants and returned emigrants.
23. Remittances by emigrants.

B. Tourist receipts :

24. Receipts from foreign tourists and travellers.

C. Charitable and Educational Donations from abroad :

25. Charitable and Educational donations from abroad.

D. Other Current Items :

26. Other current items.

VI. Government Transactions

A. Diplomatic, Consular and other Expenditure in . . .

27. By foreign Governments.
28. By colonies.

B. Receipts in respect of Loans paid direct to the Home Government :

29. By foreign Governments.
30. By colonies having the same monetary unit.
31. By colonies with monetary unit different from the mother-country.

C. Home Government Receipts in respect of Reparations :

32. Home Government receipts in respect of Reparations.

D. Other Receipts from abroad by the Home Government :

33. Other receipts from abroad by the Home Government.

VII. Capital Transactions

34. Receipt of payments on account of amortisation of foreign Government and municipal loans :

(a) repayment of bonds at maturity;

(b) sinking fund operating for repayment of bonds.

35. Receipt of payments on account of amortisation of other loans :

(a) same as 34.

(b) same as 34.

Note.—Divide 34 and 35 into : (i) colonial, (ii) foreign.

36. Existing domestic securities sold to abroad (excluding if possible domestic securities purchased abroad by own nationals).

37. Foreign securities resold abroad.

38. Export of new domestic securities on account of new loans floated abroad.

39. Domestic real estate sold to foreigners.

40. Other foreign capital invested in . . .

VIII. Balancing Items

A. Increase of Current Short-period Indebtedness :

41. Increased foreign deposits in home banks.

42. Increased foreign holdings of bills.

43. Increased commercial debts due to foreign nationals and outstanding not included in above.

B. Unexplained Discrepancy between Total Credits and Total Debits :

44. Unexplained discrepancy between total credits and total debits.

DEBITS ARISING FROM :

(Headings corresponding in each case to those on the *Credits* side.)

J. M. K.

The Economic Purpose of International Labour Organisation

Economists are often apt to consider international labour organisation as a foible of the creators of the Treaty of Versailles or a sop to internationalist working-class sentiment. Taking its source in the doctrine of comparative costs and the advantage of the international subdivision of labour, the current of economic thought is flowing away from the direction followed by organised labour in its international relations. If it be true, say the economists, that the condition of labour in any country is governed by circumstances peculiar to that country, then the condition of labour in competing countries cannot influence that in the other. On the contrary, the diverse economic stages of development of different countries require that the standard of living should vary from country to country. Why, then, international labour organisation ?

Little light is cast upon the subject by the current statements of employers' and workers' organisations. Employers in an industry, when pressed to concede an alleviation in labour conditions, often refer to the similar conditions in competing industries abroad, and state that improvement cannot be undertaken in one country without causing trade to pass to others. The labour organisations consequently consider that inequality of working conditions exerts a depressing influence on standards of labour in the most civilised countries, and have become the advocates of the policy of international agreements guaranteeing minimum conditions throughout industry. The economist is inclined to say, " A plague on both your contentions; improvement of conditions in the better-placed countries has no need to wait upon the slow march of progress in weaker competitors, while, if the latter have terms forced upon them which their economic position does not justify, unemployment and reductions of wages in the poorer countries must result."

An exception is, however, made by economic theory in the case of short-period industrial fluctuations. The general principle that international competition benefits all participants ignores the economic loss occasioned by temporary fluctuations in international competition to industries employing large amounts of fixed capital and workers who cannot easily find other employment. In such cases international agreement to regulate the conditions of labour may save much human suffering during the short periods of instability before the economic system returns to its normal equilibrium.

The general tenor of international labour legislation has not, however, been of this temporary nature, but has taken the character of a steady pressure by the more progressive countries to introduce uniform minimum conditions of working throughout the world. Self-interest has raised the cry of "unfair competition," and labour solidarity has tinged the movement for international legislation with altruism. But is this economically justifiable?

The key to the problem may be discovered by an examination of the actual legislation concerning conditions of work which has been effected by international agreement. Firstly, we may note that no international legislation has yet been applied to regulate the wages paid in the same industry in different countries. On the contrary, the agreements effected between members of the League of Nations by the International Labour Organisation have always been concerned with those conditions of working which are not capable of monetary measurement—such conditions as hours of labour and still more appropriately hygienic rules, which are hardly capable of quantitative measurement at all.

Now, it is just these qualitative elements of the amenities of labour which are least susceptible to alteration and are mainly determined by custom. In the case of wage payments, and, to a lesser degree, hours of work, scope exists for an approximately precise adjustment of working conditions to the economic circumstances of an industry; and we may therefore expect that as a country's industrial efficiency increases, so will the wages of labour and, less certainly, the hours of working steadily improve by comparatively small adjustments. But where the industrial character involved is one that does not admit of quantitative measurement, such as the use of white lead in paint or the conditions deemed necessary for cleanliness in bakeries, an alteration cannot be of the nature of "nicely calculated less or more." The improvement, if it take place at all, will not be a gradual upward movement, like the steady increase of a minimum wage, or a downward progression, like the constant tendency to decrease the maximum permissible hours of labour. Instead, Governments will enact the legislation once for all: lead paint may not be used, or conditions in bakeries must be of a particular nature. Experience teaches that in these cases the opposition encountered by reform is largely aided by the difficulty of determining in advance what will be the economic result of a change in working conditions, and, secondly, by the drag which is exerted upon employers who wish to make experimental alterations by the

impossibility of proceeding gradually and checking results at different stages.

It should be noted that this is by no means the case with wage payments or even hours of labour. The direct influence of a wages charge upon cost of production can be mathematically calculated, and, although its precise evaluation may be difficult, allowance can be made for the reaction of the worker towards the alteration and the corresponding change in his industrial efficiency. Moreover, wages changes may be effected gradually and time allowed to note the effect. This does not preclude the possibility of a conventional and customary element being involved in wages rates, nor is it denied that wages tend to "stick" once they reach a particular level. Nevertheless, wages changes do occur frequently and are part of the every-day industrial order, with the result that in an industrialised country where the workers are well organised wages tend to reach the highest levels justified by economic circumstances. The mosaic of industrial competition and combination is found to be the best pattern.

Where, however, general conditions of labour are concerned, economic forces, although always active, are not the main factor. While economic considerations are relevant in such cases, in the sense that hours of labour in a particular country at any given stage of industrial efficiency, for example, could not be reduced below a certain level without inducing undesirable economic reactions, yet the particular level of working hours in force might well be the result of sheer custom with but little reference to economic possibilities. We cannot here say with any high degree of probability that economic factors will tend to produce the most desirable set of conditions of work in industrial establishments.

Hence the growth of international labour legislation proceeds from two main considerations. Firstly, in cases, including that of sweated labour, where the proposed legislation would not lead to an increased cost of production, and therefore would not divert trade to those countries where conditions remain unaltered, the improvement could, and need only, be effected nationally. Owing, however, to the difficulty of deciding the extent to which the change would affect costs, some employers will tend to throw their influence on the side of conservatism, and, in order to remove the fears of a diversion of trade, the labour organisations may press for the legislation to be applied internationally.

But even if the proposed improvement of working conditions did raise cost of production, the workers, quite apart from their widespread belief that wages may be continuously raised without

producing adverse economic effects, might prefer that industrial progress should express itself in improved hours of work and conditions of labour, rather than in wages. In this case, international legislation is requisite in order to prevent industry migrating to localities where labour conditions are worse and so tending to perpetuate these evils. When the choice is between the amenities of life and higher wages, which are desirable largely because of those amenities which they enable one to purchase, the choice must be left to the individual himself—a consideration which bore due weight with the last Royal Coal Commission when it decided that, if a reduction in labour costs had to be effected either by an increase of hours or by a reduction of wages, the strong opposition of the miners to the former alternative weighted the scale in favour of the latter.

H. BERGMAN

PRESENT AND FUTURE GOLD EXPORT POINTS

IN a note appearing in the March issue of the ECONOMIC JOURNAL I have pointed out the changes in the gold points since the war, their present instability, and their future prospects. The developments of the last few months have amply justified the opinion that gold points deserve more attention than has hitherto been paid to them. The freight war, which was in progress at the time the previous note appeared, has eventually resulted in a reduction of the freight rate for gold to New York to 3*s*. per £100, which is 9*d*. below the rate of 1913. At the same time, the rate of interest had, on the whole, a downward tendency, so that, while some time ago the export of gold could not have been financed under 5 per cent., at present it can be financed at 4 per cent., and occasionally even below that figure. As a result, the gold export point of the dollar exchange advanced to 4·8517, as compared with 4·8488 six months ago, and 4·8506 in 1913.[1]

[1] The calculation of the pre-war gold point in the note, appearing in the March issue, contained an error. The following is the correct calculation :—

	£	*s*.	*d*.
100,000 fine ounces of gold @ 84*s*. 11½*d*.	424,791	13	4
Freight @ 3*s*. 9*d*. per £100 for £424,800 .	796	10	0
Insurance @ 9*d*. per £100 for £428,000 .	160	10	0
Interest 4 per cent. on £424,792 for 8 days	372	8	4
Boxes and Packing	16	0	0
	426,137	1	8

100,000 fine ounces @ $20.67183	$2,067,183
Incidental charges in New York	150
Net proceeds .	$2,067,033

£1 = $4.8506

Although the freight rate seems to have settled down to 3*s.* in the London–New York relation, it is understood that exceptional rates are occasionally quoted in other relations. The uncertainty thus created was pointed out by Dr. Vissering at the annual shareholders' meeting of the Netherlands Bank. He stated that, while before the war we knew the figure of the gold points, at present there are so many known and unknown factors at work that it is impossible to know at what rate it becomes profitable to withdraw gold. He suggested that the question should be the subject of a joint investigation by the central banks. There is, indeed, a vast scope for an expert inquiry. Apart from the lack of stability of the gold points, and the difficulty of ascertaining their exact, or even approximate, figure, the tendency towards the contraction of the margin between gold import points and gold export points calls in itself for a timely investigation.

Admittedly, the difference between the present gold points and the pre-war gold points is insignificant. In the case of the gold export point of the sterling–dollar exchange, it is merely $\frac{1}{8}$ cent. If we consider, however, that the factors which tend to appreciate or depreciate the exchanges beyond their gold points are much stronger than before the war, and are likely to remain stronger for many years, the simultaneous contraction of the gold points, however moderate, assumes particular importance. The fluctuation of gold reserves, as a result of arbitrage transactions, is likely to cause the central banks much more inconvenience than in pre-war days—in addition to the inconvenience caused by " special transactions "—even if the tendency towards a narrower margin between gold points were not to continue. The chances are, however, that the present generation will witness a further marked contraction of the range in which exchanges can move without provoking gold shipments. As was pointed out in the previous note, the development of aviation is the principal factor which foreshadows radical changes in the gold points. During the last few months considerable progress has been made in that direction. As a result of the successful attempts to cross the Atlantic by aeroplane, the possibility of the establishment of regular air service between London and New York, as well as other centres, is no longer a fantastic dream, though it may take many years before it becomes reality. In South Africa and the Belgian Congo aeroplanes are already being used for the transport of gold from the mines to the principal towns, and the idea of using aeroplanes for transport to Europe is also being considered by mining companies, desirous to save interest. The establish-

ment of frequent air mail service with India is also a question of a few years.

As far as the London–New York relation is concerned, it is believed that a freight rate of 2*s*. per £100 would be highly profitable to the air lines. At the same time, the loss of interest would be reduced to about four days instead of eight days. Insurance rates would be rather high at the beginning, but, as was the case with the transport of gold by air to the continent, they would gradually decline to the level of rates for transport by sea and rail. On the basis of these assumptions, the gold export point would advance, as a result of the establishment of air transport to New York, to about 4·8562. The margin between mint parity and gold export point would become reduced to about one-fifth of one per cent.

It is not without interest to indicate the effect of the anticipated change of gold points upon the rates at which it becomes profitable to take gold from the open market to New York. The following table compares these rates, in 1913, 1927, and after the establishment of air service with New York, on the assumption that the rate of interest remains 4 per cent. :—

Price of gold. Fine oz. *s*. *d*.	1913.	1927.	19 ? ?
84 11½ . . .	4·8506	4·8517	4·8562
84 11¼ . . .	4·8518	4·8529	4·8574
84 11 . . .	4·8530	4·8541	4·8586
84 10¾ . . .	4·8542	4·8553	4·8598
84 10½ . . .	4·8554	4·8565	4·8610
84 10¼ . . .	4·8566	4·8577	4·8622

It thus appears that, after the establishment of air mail service with New York, it will be profitable to buy for America the South African gold in the open market at 84*s*. 10¼*d*. whenever the dollar rate declines below 4·86¼, against 4·85¾ at present, and 4·85⅝ before the war.

Much has been heard lately about the desirability of reducing gold movements by means of the creation of a central gold reserve, to and from which transfers may be made, in the place of actual gold shipments. A much more practicable method to the same end—which, in fact, operates already to a limited extent—is that central banks should keep gold deposits with other central banks, into which they would accept gold payments, and from which they would make gold payments. These palliatives do not touch, however, the root of the problem. They merely reduce the actual shifting of gold from one country to another, but they do not in the least reduce the fluctuation of gold reserves, which, after all, is the principal evil. The expenses of gold shipments

may be superfluous, but they are paid out of profits on every occasion, so that they do no harm to any interest concerned. The central banks themselves benefit by them, as their selling price is higher than their buying price. The problem is not to eliminate this uneconomic but insignificant expenditure, but to moderate the changes in gold reserves, so as to protect the money market against violent fluctuations. It will be, however, difficult to find a solution without interfering with the automatic working of the gold standard.

PAUL EINZIG

OFFICIAL PAPERS

The Agricultural Output of England and Wales, 1925. (Cmd. 2815. Stationery Office, 1927. 3*s*. 6*d*.)

AGRICULTURE, in common with many other industries of this country, has suffered from official inability to implement at regular intervals the Census of Production Act of 1906. In 1908 the first attempt was made, and a sixty-two page publication appeared, in which compass the agriculture of the whole of Great Britain was reviewed; the 1913 inquiry, owing to the War, was virtually abandoned; now there has appeared a volume of one hundred and fifty-two pages, but covering, unfortunately, only England and Wales. Such a crude statistical comparison, however, fails to do justice to the scope of the 1925 undertaking, for, in quality as well as in quantity, it provides at long last a rich mine of information for those interested financially, socially or merely academically in what is still the largest industry of the former United Kingdom. To what extent this happy consummation is attributable to the incessant, and often impossible, demands of politicians it is not necessary to inquire; doubtless certain data were added to appease those whose pre-determined views would in no event be modified by the results of any official investigation. The 1908 *Report* was a colourless statistical compilation; the 1925 *Report* is a living commentary in which the letterpress dominates the tables, and it covers, too, a far larger field than its title implies, for the agents of production—human, mechanical, physical and financial—are fully analysed, and price movements during the last two generations scrutinised.

British agriculture has been suffering recently almost as much from the attention of its friends as from that of its enemies; both have taken the opportunity afforded by the period of depression—certainly less severe than at least two precursors in the last

century—to make the wildest statements about its condition, and neither party has refrained from putting forward the most drastic and uncalled-for proposals for its rehabilitation. No better corrective than a perusal of the present *Report* can be conceived. Those who freely state that the industry is declining in output can be referred to Chapter VI, where they will find clear evidence that the value of the latter was, in 1925, the necessary adjustments having been effected, exactly equal to that recorded in 1908. The fact that arable land represented 41·0 per cent. of the cultivated area in 1911–15, and 41·5 per cent. in 1925 should restore a sense of proportion to those who, by harping upon "the constantly diminishing area under the plough," proclaim their inability to distinguish between relative and actual movements. Writers, who, forgetful of the broad results of the 1921 Census, expiate on the "rural exodus," might with advantage note that recent occupational statistics do not support their contention, for 1925 witnessed an increase of 31,000 in the number of workers employed over the corresponding figure for 1923. Turning from these popular misconceptions, the refutation of which would alone have justified the compilation of the volume, serious students of rural economy will, on almost every page, discover material, hitherto unavailable, emerging in slightly unexpected form. For example, Chapter X contains a full synopsis of the rental and gross value per acre of farm-land, separated both geographically and according to size-groups and types of practice. Here, while the general tendencies revealed are normal, *e.g.* grass-land almost invariably commands higher rents than arable, and both decline as the unit of area is enlarged, the actual figures themselves are frequently arresting. Thus, 62*s*. per acre as the average rent of all holdings of from 1 acre to 5 acres in extent (coupled with a capital value of £60) is unexpectedly high when viewed in conjunction with the policy of reduction imposed upon large classes of landowners such as County Councils and other public bodies. Again, the difference between the over-all figure of 26*s*. per acre for "mainly arable" and 36*s*. for "mainly pasture" holdings forms a large gap, even if recent price movements of certain commodities are borne in mind; the fact that the south-western counties command the highest rents for holdings up to 50–100 acres, after which point the north-west district assumes the lead to 300 acres, and the northern is supreme above 500 acres, is explainable by a combination of circumstances which are not at first glance obvious. The capital value of all agricultural land and buildings—in England and Wales only,

it must be remembered—is given as £815,000,000, nearly 30 per cent. below the corresponding estimate upon which an unofficial scheme for State purchase was recently based. Tenants' Capital (Live and Dead Stock and Tenant-right Valuation) adds £365,000,000, and thus represents rather less than the usually accepted one-third of what is a truly formidable total.

The very difficult problem associated with the number of persons respectively engaged and employed in agriculture at different periods is fully treated, and the discrepancies between the industrial Tables accompanying the Population Census, and the independent inquiries conducted at certain times by the Ministry, are elucidated. In few occupations is the definition of employer and employee (including in that term the former's relatives and dependents), or of permanent and temporary worker, so hard to assign, and the ancillary and border-line occupations so numerous. The grand total of 1,100,241 persons engaged and employed in English and Welsh agriculture and horticulture formed, in 1925, the second largest aggregate of persons associated with any industry, and, if corresponding figures were available for both Scotland and Ireland, the still predominant position of agriculture in these Islands would be strikingly emphasised. The long-standing difficulty of correlating numbers of "farms" with those of "farmers" is adequately explained, and satisfactory grounds are adduced for acceptance of a figure of 301,000 for the latter, as against 410,000 for the former. None but those ignorant of the elements of rural economy will be surprised at the detailed statistics of density of employment, but, doubtless, many readers will continue to advocate blindly the policy of a "denser settlement on the land," regardless of the economic factors involved, and in this connection may fail to appreciate the relevance of the Tables showing the quantity of machinery now utilised in farming operations.

It is not necessary to discuss in detail the analysis of output, which is convincingly demonstrated merely to have been modified in character, and accordingly affords vindication of both the ability and the adaptability of English farmers, but page after page conveys an implied warning that neither acreage alone nor crude numbers of livestock is a reliable criterion as to actual or potential food supplies. Declining areas under orchards are revealed to be producing, by modern systems of management, heavier gross yields; and the same is true where market gardens supersede farms, with concurrent modifications both in type of product and rate of yield. Conversely, there is clear evidence

that the present-day larger herds, by reason of smaller weights and earlier age at slaughter, give a reduced quantity of meat, albeit a quicker return to their owners.

Perhaps the most contentious question tackled is the notorious one concerning the use to which the soil of the country is being put. Here we are carried little further, for those politicians who were most insistent in their demands for its elucidation have considered themselves deliberately burked by the negative character of the results, and agriculturists and statisticians, who, in their respective spheres, saw the impossibility of the task, have been vindicated. The truth is that none can define with accuracy such terms as "agriculture" and "waste land," or "productive" and "under-farmed." What is passable practice in one area at a given time may elsewhere, or in altered circumstances, form reprehensible neglect. Seasonal variations may entail temporary abandonment of tillage or grazing, economic depression can simultaneously reduce the standard of cultivation over wide areas and definitely place marginal land on the wrong side of the line. All that can be said at the present juncture is that there is an extremely small acreage of land that is *unaccounted for*, and it might be added, in parentheses, that wanton under-cultivation is certainly not widespread. In this connection a really serious matter, viz. the growing loss of agricultural land, is apt to be ignored. Many thousands of acres—from the nature of the case, frequently of the most productive character—are taken each year for housing and other social and industrial requirements, and if the agriculturists' loss of raw material is offset by the land-owners' financial gain, the supply of home-produced foodstuffs is certainly thereby modified in character, if not actually curtailed in quantity. As this is regarded, nationally, as a highly desirable movement, it will doubtless continue indefinitely, State-aided and fostered by modern systems of transport which facilitate the widespread dispersion of population; but criticism of agriculturists for the use they make of the land should be tempered with knowledge regarding the uncertainty of their tenure of what are frequently to them the most economically valuable portions of it.

For many years past, certain readers—too few in number, it is feared—have been accustomed annually to welcome the admirable summaries prefacing the official "Agricultural Statistics." Anonymity is the rule in such publications, but as the name of Mr. R. J. Thompson, Assistant Secretary to the Ministry, who is responsible for their preparation is also appended to the introduction of the present *Report*, it seems legitimate to

offer him personally, as well as his staff, hearty congratulations upon carrying through so skillfully an enormous piece of work and, withal, presenting its results so attractively and clearly. Only those who have been, or are, engaged in extracting and handling economic and statistical data relating to this particular industry can have any conception of the difficulties which have been overcome. Perhaps the best compliment to pay them is to say that their product is worthy to rank with the *Reports* of many Royal Commissions, and it possesses, moreover, one advantage over those inquiries, in that, based upon an extension of the annual schedules, it was carried through by means of the regular personnel, headquarters and local, of the Department, and has, therefore, cost the taxpayer a very small sum. It is to be hoped that a large proportion of both urban and rural representatives of that body will peruse its contents, as it forms the best means for the townsman to acquire, not an impossible " rural bias," but, what is far better, an unbiased outlook, and at the same time it encourages the countryman to hold his head a little higher—pursuits equally commendable in both sections of our population.

J. A. VENN.

Report of Grain Futures Administration. (U.S. Department of Agriculture, Washington, No. 1479 D.)

EUROPEAN criticism of the Chicago wheat pit as a grain market given over to a disproportionate amount of price manipulation is candidly confirmed by an interesting official report just issued by the United States Department of Agriculture.

The report covers an investigation made by the Chief of the Grain Futures Administration and the Assistant Market Specialist. The Grain Futures Administration is a departmental bureau established in 1922 to investigate, among other things, complaints against the various grain exchanges. The report discloses the fact that " the eight largest speculators " on the Chicago Board of Trade controlled at will the prices of " May wheat futures " in 1926, that is, the price of May wheat for future or forward delivery. The " eight " were too wise to attempt a " corner," but they manipulated the price with ease, regardless, apparently, of any possible intervention from Winnipeg, Liverpool or the Continental corn exchanges. After setting forth their findings at some length, the two investigators unite in declaring that " effective limitations upon the operations of large speculators " must be placed, preferably by the Exchange itself, " if the futures market is to best

serve . . . in the process of moving grain from the farm to the consumers of this and other countries."

As a matter of fact, this is the Department's second warning to the Chicago grain market, a similar though somewhat milder report having been issued last year covering the manipulation of May wheat futures in 1925. A third offence might easily result in Congressional legislation; a committee of Congress has visited Chicago and taken testimony regarding the methods of the famous wheat pit. The two experts, however, urge the Exchange voluntarily to set its house in order by (*a*) definitely limiting the number of millions of bushels of grain for future delivery which a broker would be allowed to swing in a given day, and (*b*) by limiting artificially the daily range of prices for forward delivery. This sounds like attempting the impossible, but in reality, owing to the technical and conventional (not to say artificial) character of the futures market, such a restriction would not, it appears, prove as difficult as it sounds.

To European consumers the report will be significant chiefly if it leads to a regime of less violent fluctuations in the price of North and South American wheat *en route* to the consumer. But to the student the report should prove of interest for three reasons :

First, it breaks new ground in the analysis of market prices. By the systematic examination of several hundred miles of " ticker tape " revealing the amount of sales minute by minute and hour by hour, as well as the price fluctuations, together with a study of the " floor books " or " trading books " of the brokers in the wheat market, the investigators were able to trace a close parallelism between the price fluctuations and what might be called the " personal equation " as reflected in the net trading position of the eight biggest operators on the one hand, and the small fry on the other. This is a method with interesting possibilities. European consumers of tin, for example, who frequently complain that tin for forward delivery is unduly influenced by the large-scale operations of a well-known London dealer, could by this method (given the proper facilities) put their convictions to the test.

Second, dissociating itself from the familiar popular denunciations of the wheat market as a place given over wholly to speculation, the report discriminates carefully between (*a*) the " higgling of the market " as affecting the price of grain for immediate delivery when a fairly definite visible supply is pitted against an accurately gauged demand, and (*b*) the price in the futures market where the supply of opinions as to the probable tendency of the

price of wheat is practically unlimited. It is at this point, the report points out, that the present technique of the grain exchange proves inadequate.

Third, exploding a popular view, the investigators found that it was not the mere *volume* of trading which affected prices so much as it was the *manner* in which futures were bought and sold.

The report reads in part as follows :

" When the trading of the eight largest speculators in the 1926 May wheat futures on the Chicago Board of Trade is compared with the daily price changes, the one is found to correspond closely to the other. This is true whether the comparison is made within the trading day, from one trading day to the next, or over a period. The larger the net trading, or the net position, of the large speculators, the more direct the influence on prices. On some days the large speculators do not change their position while the price moves up and down. On the days on which they do change their position, some are changes to an unusual extent and immediately affect the price, while others are small and show no resultant effect. . . . It is the manner in which sales or purchases are made, rather than their mere volume, which vitally affects the course of prices. Our graphs show that there is a vital difference between a purchase or sale of 5,000,000 bushels made by several hundred small traders sending in orders intermittently to be executed ' at the market,' and the purchase or sale of an equal amount by one or two traders closely directing the manner in which their orders are executed and noting their effect upon the price. . . .

" The supply of a particular grain future which may be offered on the market at any moment, without any possible way of predicting it, is practically unlimited. There is no direct relationship whatever, other than for a short period during the current delivery month, between the supply of actual grain available for the market and the supply of grain futures which may be sold. Likewise there is no direct relationship between the demand for actual grain and the volume of buying which may at any time enter the futures market. In this respect the buying and selling of futures differs, in degree at least, from the purchase and sale of actual grain. In the latter case the total supply is limited by the actual stock multiplied by the rapidity of turnover ; in grain futures the stock may be any amount and the rapidity of turnover very high.

" It is because of this lack of any natural limit to futures trading growing out of the needs of commerce in the merchandising

of any given crop that it is subject so often to abuse. Our information shows that the futures price moves up and down with the net positions of a few leading speculators. The reason why the price so moves is that large amounts are bought and sold at a single time followed by additional large units. There is apparently no limit to the volume of buying or to the volume of selling in futures, and as the result, market resistance or support promptly weakens.

"The remedy for this condition has already been suggested in an earlier report of the Grain Futures Administration on 'Fluctuations in Wheat Futures.' Some limitation on the lines, long or short,[1] and upon the extent to which an individual speculator may buy or sell within the limits of a trading day is necessary. In addition, it seems advisable to place some limitation upon the extent to which prices of grain futures may fluctuate within a single day. These conclusions are based on the assumption (1) that the grain trade and the farmers desire a greater degree of price stability than now exists, and (2) that supply and demand factors growing out of actual grain conditions should have a relatively larger, and futures trading of itself a relatively lesser, importance in determining grain prices.

"Such limitations . . . are no doubt artificial, but in dealing with artificial, and, in a sense, unnatural, attempts to move prices out of their normal course we may be justified in using more or less arbitrary means to keep them within the reasonable bounds of natural movement as governed by the legitimate forces of supply and demand.

"Both of these are problems which should be solved by the grain exchanges themselves. . . . It is evident that immense trading operations obviously designed to influence prices, and especially operations which involve heavy swings from one side of the market to the other, have neither economic nor moral justification.

"It seems equally true that a futures market in which an individual trader may buy or sell within a single trading day a quantity equivalent to 10 per cent. or 12 per cent. of the total trading for the day in the dominant future is not a market based on the supply of, or the demand for, actual grain."

This report may prove to be something of a landmark in the slow evolution of what is at present the world's principal wheat market. Already the wheat market in Winnipeg, the venerable

[1] In the jargon of the wheat pit, a "line" is the net total of the speculator's commitments at the end of the day—"long" if, on the whole, he is buying wheat futures, "short" if he is selling.

Produce Exchange in New York and the Corn Exchange in Liverpool dispute with Chicago the business of operations in futures. The day is past when a Levi Z. Leiter or a Hutchinson in Chicago can attempt a " corner " in wheat with any hope of success. The task remaining, as this report suggests, is to make it impossible for any group of speculators to rock the market by the enormous impact of their massed " opinions " as to the future price of wheat.

C. T. HALLINAN

Co-operative Industrial Research; an Account of the Work of Research Associations under the Government Scheme. (Department of Scientific and Industrial Research. Stationery Office. 1927. 9*d*.)

"THE Government Scheme for Industrial Research" was issued in 1918, when a fund of a million sterling was placed at the disposal of the Department, in order to assist manufacturers who were to be themselves responsible for organising and directing the conduct of researches. When a Research Association has been formed in any industry, in the form of a Research Company limited by guarantee and working without dividends, the Department contributes, within prescribed limits of income, pound for pound of what is contributed by the industry. The results are the property of the Association, but the Department, in consultation with the Association, has the right to communicate them to other industries for their use on suitable terms. Of 26 Associations thus formed, 22 have now been in existence for more than five years. The list is a very representative one, but the degree of support varies greatly; for example, in the woollen and worsted industry about one-third of the firms, representing two-thirds of the capital, support the Association; in the scientific instrument industry, in cotton, and in some branches of the electrical industry, the percentage is on either basis very high. But on the whole " the movement has not yet secured, in the majority of cases, either the degree or range of support that will enable it to become the powerful factor in the restoration of industrial prosperity which it might and ought to be." The advantages offered to individual firms by membership are so important (since they may not only participate in the results of general investigations, but may also ask for a particular research for their sole benefit to be undertaken at cost price) that a wide circulation of this Report is most desirable.

Many striking instances are given of the nature of the research

carried out. Thus, it is in the interests of economy that insulated cables should carry their maximum load of current, since the cost of cables represents from one-third to a half of the total cost of electrical generating plant. But as insulation fails after a certain temperature, it was important to investigate the question of safe loading under different conditions of soil and methods. These are now known under most conditions; and the improved value of existing cables, through safe use of capacity, is estimated at four millions, with a saving of £300,000 per annum in respect of new purchases.

The Report points out that co-operation has in this way not only been extended over a particular industry, but has also included allied industries, so that the points of view of producers and users may alike be represented. Again, a field is being created for employment of trained scientists in industry, leading to positions of responsibility such as to make a high scientific training with this purpose worth while; this has been one of the great *desiderata* from the side of technical education.

Economists will see, in the account given, a method not only of great technical value to industry, but also a growth of those relations between producers still competitive which are "rational," and which have a place in the whole modern problem of association and combination. Either a balance of competitive forces, or the serious issue of monopolist development. There is here a contribution to the side of balance.

Statistical Abstract for the United Kingdom, for each of the Fifteen Years from 1911 *to* 1925. (Cmd. 2849. 6*s*.)

THE seventieth Abstract includes new Tables on climate; population (natural increase and net loss by migration); birthplaces of the population, vital statistics; insurance and pensions; trade unions, strikes, wages; numbers employed in industry; banking, currency, finance; agricultural holdings, etc. The form of a number of other Tables has been revised.

Report of the Ministry of Labour for the Year 1926. (Cmd. 2856. 2*s*. 6*d*.)

THE administrative record of the Ministry relates to its functions in respect of Industrial Relations (Conciliation and Arbitration); Employment (Exchanges, Assisted Oversea Settlement, etc.); Unemployment Insurance (including Special

Schemes); Choice of Employment, and Employment of Juveniles; the Trade Boards Acts; Statistics; and International Labour Questions. There are very full statistical Appendices.

Report of the Committee on the Disinterested Management of Public-houses. (Cmd. 2862. 6*d*.)

THIS Committee was appointed in 1925, with Lord Southborough as chairman. The main systems reviewed are the Public-house Trust Companies and Associations, and State Management. As regards the former, the total capital employed is estimated at two millions; its main field is the management of country hotels and inns; the movement "cannot be said to have touched the problem of the town public-house." Its extension is also hampered by the high capital cost of acquisition, since 90 per cent. of existing licences are tied to brewers, a tie which gives them a high selling value. Within its sphere, the system has done valuable pioneer work. The largest part of the Report deals with State management in a few areas where this system was established during the war and continued afterwards, notably the Carlisle area. Certain general advantages are noted which depend on the fact of monopoly and single control. The number of houses has been reduced by 50 per cent., their quality improved, and their scope extended to other functions than the supply of liquor; but it is not established that there has been any special reduction of consumption of drink in these areas. It is not proposed either to terminate or to extend this experiment. On the wider question of the "improved public-house," a matter lying mainly in the hands of brewers, the Committee is sympathetic to improvements and enlargement of premises, but is unable to suggest any legislative methods, and the matter is left in the hands of licensing justices.

Report of the Great Marlborough Street Advisory Committee for Juvenile Employment, for the Year 1926. (Stationery Office. 14 pp. 6*d*.)

THIS Committee, appointed by the Minister of Labour in 1924, reports considerable progress. Its activities "are centred chiefly in co-operation with employers, and the placing of boys and girls from the areas of other Juvenile Advisory Committees and Juvenile Employment Bureaux." The Committee also gave assistance to a number of outside bodies in the placing of special cases. Out of about 11,000 vacancies over 8000 were filled.

Details of much interest are given as regards co-operation with schools, visits to employers, the supervision and after-care of boys and girls, the progress made after appointment, and the type of applicant sought by employers.

Report of the Inspection Committee of Trustee Savings Banks for the Year ended 20th November, 1926. (Stationery Office. 1927. 4*d*.)

THE figures show increases in Funds since 1891 of about double, thirty-fold, and eight-fold, in the Departments of cash, stock, and special investments, and of 55 per cent. in the number of depositors.

Guide to Current Official Statistics of the United Kingdom, Vol. Five, 1926. Issued by the Permanent Consultative Committee on Official Statistics. (Stationery Office, 1927. 1*s*.)

INCLUDING full explanations for its use, this publication enables the investigator to find his way among sources of information on any subject of inquiry.

Polish Economic Conditions in 1926. Published by the Ministry of Finance. (Warsaw, 1927.)

"POLAND made in 1926 good headway in the direction of economic progress." The stabilisation of the zloty was accomplished, and a lasting equilibrium of the Budget was secured.

Economic Status and Health. Public Health Bulletin, No. 165. (Washington, 1927.)

AN examination of morbidity and mortality rates from all causes in different economic classes; of adult mortality by age and cause, child morbidity and mortality, and infant mortality, according to economic status. The review includes an examination of the data for England and Wales, and other European countries.

Memorandum sur les problèmes économiques de l'Europe centrale. Rédigé sur mandat du Congrès économique de l'Europe centrale pour la Conférence économique internationale, par E. Hantos. (Vienna, 1927. Pp. 32.)

THIS Report is based on two conferences, one in September 1925 dealing with the general economic problems of Central Europe,

and one in October 1926 dealing specially with transport. Resolutions were adopted drawing attention to the complex economic conditions created by new national administrations, as regards trade, finance and communications, and these were submitted to the Geneva Conference. M. Hantos supplements these Resolutions by an account of the conditions existing, and discusses the problem of *rapprochement* in its chief aspects.

Twenty-sixth Financial and Economic Annual of Japan, 1926. (Government Printing Office, Tokyo. 2 *yen*.)

STATISTICS of Finance, Agriculture, Industry and Commerce, Foreign Trade, Banking, and Communications. With diagrams and introductory Tables.

La Suisse économique et sociale. Première partie : Exposé historique et systématique. Deuxième partie : Texte des lois et ordonnances. (Département Fédéral de l'Économie publique. 2 vols. 1926–7. Pp. 854 + 1103.)

OBITUARY

JOSEPH SHIELD NICHOLSON

BY the death of Professor Nicholson, Scotland has lost an outstanding economist and the study of the subject is the poorer. He held the Chair of Political Economy and Mercantile Law at Edinburgh for the long period of forty-five years (1880–1925), and there were few questions during these eventful years, in which economic principle was involved, which he did not treat with force and insight, either in brochures or in articles which appeared in journals as diverse as *The Journal of the Statistical Society* and *The Scotsman*. In fact this was the secret of a part of Nicholson's influence. He felt that, in addition to the economist by profession, an appeal should be made to the ordinary citizen, and he had the faculty of lucidity of writing, which enabled him to expound recondite economic problems in a manner which appealed to any one who had an interest in the subject discussed. An excellent example of this is to be found in his papers on monetary problems arising out of the Bimetallic controversy, which were reprinted in his book on *Money and Monetary Problems* as far back as 1888.

What is particularly impressive in Nicholson is his many-

sidedness. From Edinburgh he went to Cambridge, where he was a scholar at Trinity in the early years when Marshall was teaching Economics, and from Cambridge to Heidelberg. In the seventies of last century he was in touch with German writers on the subject, while he learnt at Cambridge a capacity for exact methods of thinking. As a background to this there was something traditionally Scottish, which may perhaps be expressed by saying that whatever is clearly analysed and thought out can be clearly expressed. Nicholson's veneration for Adam Smith is a clear proof of this, and it was in every sense a labour of love to him to edit *The Wealth of Nations*, his edition of which appeared in 1884. In addition there was something which was peculiarly Nicholson's own. He had a most highly developed artistic sense, which made him kin to the great period of Italian Literature and Art. And thus he found time to write two books on Ariosto. Then, too, as his economic writings show, he had an impulse towards definitely creative work which economic investigation could not wholly satisfy, which is the explanation of three romances which he wrote between 1888 and 1890.

Apart altogether from these varied endowments of mind, Nicholson had a quiet force of character which contributed in no small measure to the influence he wielded in the somewhat exacting position of a Scottish Professor. He belonged to the old school of Scottish professor who spent himself freely on his students during the winter, not only giving lectures carefully prepared and finished in form, but also stimulating and cultivating the enthusiasm of his classes for the subject. He then had the period from April to September for his own work, being almost the last of the Scottish professoriate to continue the practice of strenuous winter teaching of the old style. It is difficult now to realise that for almost a generation he was the sole independent representative of Political Economy in the Scottish Universities, since during this period in the others the subject was still included within the domain of Moral Philosophy. Thus Nicholson felt that he had a great province and a large responsibility, and he was able to make the study a real and a living one in the north by a happy combination of his natural gifts and by strenuous industry. His Chair at Edinburgh was a source of inspiration to a long line of students, many of whom, in their turn, have served scholarship and the country well. By his numerous writings Nicholson may be said to have cultivated Political Economy both extensively and intensively—in the latter method by works intended mainly for serious students, and in the former by articles

and lectures for the general public. Besides, on a number of occasions he addressed the Edinburgh Chamber of Commerce in order to present the Directors with the considered judgment of an Economist upon a particular urgent problem which was before them.

If one bears in mind this conception of his office, it gives a unity to a great mass of publications extending over more than forty years. After an early essay on *Machinery and Wages* (1878), he made a special study of Agriculture, which resulted in *Tenants' Gain, not Landlords' Loss* in 1883 (a subject to which he returned from a different standpoint twenty years later). Then for a time he was immersed in monetary problems. Feeling the want of a text-book for his classes, he began to consider the writing of one. By 1893 the first volume of his *Principles* appeared, which was followed by a second in 1897. This carried the treatment of the subject to the end of the study of foreign trade, and four years later there followed a final volume treating of "Economic Progress," which involved a large historical investigation, carried out not only from British sources, but also treated comparatively by reference to continental conditions as well. Work on *The Principles* occupied him from about 1890 to 1901, during which interval he published nothing else of importance except *Strikes and Social Problems* (1896). The publication of the third volume of *The Principles* was followed by a short breathing space before a new series of questions arose, which as appears to us inaugurated something of the nature of a new epoch. A tract on *The Tariff Question* was issued in 1903, followed by a *History of the English Corn Laws* in the following year. *A Project of Empire*, though it was not published till 1909, belongs to the same controversy. Between 1903 and 1909 he returned to agricultural questions, dealing with rating and rural depopulation (1905 and 1906). The war aroused his patriotic spirit, and he wrote on successive phases of the struggle: *The Neutrality of the United States* (1915), *War Finance* (1918)—which was a reprint of a large number of articles which had appeared during the war-years—*Inflation* (1919) and *The Revival of Marxism* (1920).

Nicholson's life and work may perhaps be best described as that of a lineal successor to Adam Smith, and if one desires to be more precise, it is necessary to add Adam Smith as Nicholson conceived him—"a man who, instead of being cosmopolitan, was intensely nationalist, or rather Imperialist" (*War Finance*, 2nd ed., p. 416; cf. *A Project of Empire*). Throughout Nicholson's writings there is a deep under-current of a sense of duty, of

patriotism and of love of his fellow-men, leading up to the remarkable final chapter of his *Principles*, the drift of which is that the ultimate end of the economic life is "to elevate and purify the soul." This is, as has been said, the under-current of his writings, and whoever misses it, even in the more controversial passages, has failed to realise the message Nicholson had to deliver.

Like Adam Smith, Nicholson laid stress on the broad human aspects of the subject, yet without allowing his keen sympathy to deflect him in the least degree from the universality which a truly scientific attitude demands. It is true—again like Adam Smith—he often condemns abuses sternly, and not infrequently with biting satire, but it is as one sorrowing over the perverse mistakes of imperfect men. He delighted in a large canvas and he drew inspiration from many sources. Philosophy, law, history and statistics were each used in turn to supply links in the general argument, which became more and more impressive in its cumulative effect.

Long experience of teaching, directed by his strong artistic sense, made it necessary for him to find the best possible expression of his thought. His sense of literary form resulted in pellucid exposition, which carries his reader on from stage to stage in the investigation, which is brightened by apt illustration and happy allusions. As a result the way is sometimes made almost too easy for all but the most careful readers. The delightful form of the writing charms so much that there is a danger of missing the long, laborious processes of thought by which the final conclusion is reached. Nicholson was a master of concentration. Here he differed from Adam Smith, and behind the difference there was a methodological theory, which may thus be summarised. Nicholson held that in the time of Adam Smith, when the study of economic conditions was being undertaken in a new spirit and on a larger plan than ever before, it was incumbent on the writer not only to collect data from every available source, but also to expound his results from many different lines of approach, so as to ensure that some one or more of these would find a response in the mind of every reader. On the other hand, when, more than a century later, the subject had been systematised, it should be possible to proceed more directly. This theory or point of view resulted in condensation which, owing to Nicholson's gift of style, was expressed in the happiest form. For the reader whose mind was *en rapport* with that of the author, the result was extraordinarily stimulating. It was possible for the former to supply the steps in the argument, which were treated allusively, rather

than in detail. Contrariwise to a different type of mind, there would be continual questions as to parts of the discussion which seem not to be fully explained, or aspects of the subject under investigation which appear to be no more than touched on. It might almost be said there were two Nicholsons. Besides the author of *The Principles* there was the Professor in his study, smoking one cheroot after another, and discussing some economic question. Then he went on from point to point slowly and with a painstaking analysis of even the most minute details, so that an apparently simple investigation tended to become exceedingly protracted. In this respect he differed from a writer in another field—Bernard Bosanquet. Both had the power of expressing themselves briefly and well in their books. In conversation Bosanquet had the same clear-cut, exact and concise form of expression: Nicholson gave in detail, slowly and even laboriously, the various steps of his analysis, which were usually rather indicated than fully recorded in his writings. It is for this reason that there was vastly more in his conversation and in his teaching than can be found in his books except by those who bring a highly developed interpretative faculty to the reading of them. On the other side, in the books one feels that out of many ways of expressing a particular thought, invariably the best has been selected. Like an oriental-cut diamond, a re-cutting under the best modern methods gives new facets and greater brilliancy, but a material part of the original disappears in the process.

The economic writings of Nicholson may be divided into two main periods, the first of which ended with the completion of his *Principles* in 1901. Like the other British economists in the last third of the century, he was under the impulse of the Classical School. At the same time, he felt the influence of the movement which was making for a new development. Though he used the mathematical method—as, for instance, in his Essays "On the Variations in the Value of the Monetary Standard" (1887) and "The Causes of Movements in General Prices" (1888)—he felt that there was a serious danger of its being elaborated to an extent which precluded verification. A not dissimilar view to that, which had been stated by Nicholson in 1893, was borne in upon some of his contemporaries later (cf. this JOURNAL, Vol. XXXVI, p. 150). The new spirit showed itself in Nicholson in the desire for a further appeal to fact, partly quantitatively through statistics, partly in the order of time through the interweaving of historical investigation with the interpretation of it. Thus he wrote in the first volume of his *Principles*, "The attention

which has recently been bestowed upon economic history, as will be shown by numerous examples in the course of this work, has led to important modifications of previously accepted theories" (pp. 19–20). This combination of analysis and history was fruitful and suggestive as employed by Nicholson, for he always bore in mind his own canon of historical criticism as to the danger of accumulating facts without a rational system for the classification of them.

Another characteristic of this work which he mentions from time to time and which was ever before his mind was the need for proportion. It is to this, perhaps, more than anything else, that we owe the *Principles* as a rounded whole—perhaps the last of the stately "three-deckers."

Then, too, there is the humanism of the whole. Nicholson was not only wider in his scope than J. S. Mill, he had the essential human touch that the writing of Ricardo seems to lack. These varied characteristics meant, in fact, a return to the tradition of Adam Smith.

The second phase of Nicholson's work began in the present century, when he devoted himself to the consideration of current economic problems from the larger standpoint of the economic welfare of the nation. He entered into discussions relating to the fiscal controversy, the most important result of which was the *Project of Empire* (though this book was not issued until 1909), in which he advocated free trade within the Empire, building up a scheme which included "imperial defence, to which every nation or dominion or commonwealth or dependency or possession contributes its share; a system of representation by which every responsible constituent of the Empire has a voice in the control of the concerns of the whole; an immense internal market for every part of the produce of all the constituents; a customs union and a common policy in commercial relations with other countries; a policy adverse to every kind of monopoly, and favourable to everything that increases the prosperity of the great body of the people throughout the Empire" (p. 271). Seven years later—seven years in which so much had happened—he returned to the same subject in his Essay entitled *Free Trade and Protection: a Reconciliation* (1916).

The war came as a trumpet call to Nicholson. He felt it, and he felt, too, that he had a patriotic duty to discharge. From a position of complete independence, for he did not attach himself to any of the war-time ministries or departments, he endeavoured to place his knowledge and his experience at the disposal of the

public, through a series of articles contributed to the Press and particularly to *The Scotsman*, extending over the whole period of the war, and which, when reprinted in his book on *War Finance*, extended to close on 350 pages. He felt his responsibility very keenly. Always a careful writer, in this case he was particularly exacting to himself, having rewritten some of his articles five or six times in order to attain the right combination of judicial fairness and practical emphasis. All through he felt that the struggle was one for a moral ideal, and he pleaded and strove and sometimes stormed against any economic measure which would in any degree detract from this.

It can be fairly claimed for Nicholson that he was not one of those who are wise after the event. The day before the declaration of war he made an estimate that, in the event of this country being a belligerent, the more probable anticipation would be that prices would fall; subject to the qualification that, if the war assumed an anti-commercial character, the movement might be in the opposite direction. This was the estimate framed on the basis of a prudent management of the currency. A fortnight later (on August 18, 1914) he had sensed what he later expressed more definitely, that "every one of any importance in the country had forgotten all about the principles of currency," and he issued a plain, though guarded warning against the evils of an inconvertible paper currency and the danger of a great rise in prices. This formed the central idea of his writings during and immediately after the war, but the main thought was traced in many directions. He deplored the withering of the devotion of the early war months, and the replacement of the idea of sacrifice by that of a scramble for the various bonuses in the forms of over-liberal terms to financial interests, to tenderers to the Government, to merchants and manufacturers and to labour—all together constituting "the most astonishing fungus that ever afflicted a long-suffering nation in war time." He maintained that the fundamental moral position was that during a state of hostilities every one ought to expect, on the whole, to be worse off than in time of peace. As he put it, "the greatest truth about war is that war must involve sacrifice, and the greatest error is to imagine that sacrifices can be made equal in the case of individuals." Inflation of currency led to a species of moral inflation through which the moral fibre of the nation became loose and flabby and material needs were over-emphasised.

It would be a mistake to consider that Nicholson's criticism was altogether destructive. It is true he was impatient with the

new gospels whose miracles were "the resurrection of old economic fallacies in the naked simplicity of new-born truths." He regretted the departures from the economy of Victorian finance, he never tired of urging the necessity of arresting inflation and of a return to the gold standard. These heroic negations should, in his view, have been supplemented by calling upon the patriotism of the people, effectively and without ambiguity. He was in favour of compulsory loans, arguing that, in the face of compulsion on life, objection to compulsion of money is negligible. The food shortage should, he thought, be dealt with by heavier indirect taxation coupled with the abandonment of bonuses designed to relieve the recipient of them from the burden of such increased taxation. As against the argument that such measures would result in grave unrest, his reply was that it was the inflation which caused the unrest, and the real cure was to first stop and then reduce the inflation.

In all Nicholson's writing during the war and the disturbed period that followed it the elevation of his spirit stands out. He had a supreme trust in the future of the country and in the soul of its people, if only they were told the truth and given the reasons for the sacrifices required from them. He felt, and was never tired of saying in varied forms, that almost the only economy which was practised at that time was an economy of truth and plain speaking. As far as lay in his power, he set himself to remedy this defect. On the whole his logic is unassailable, but who is ever convinced by logic when the tide of feeling runs deep and strong? In Nicholson's mind there were no doubts nor was there room for despair. One of his latest brochures ends with an allegory adapted from John Bunyan, where the journey of Christian and his companions through By-path Meadow is described. They were lashed with storm and were compelled to retrace their steps. They had to sleep in the grounds of Giant Despair, and are carried to Doubting Castle, but in the end they went on and came to the Delectable Mountains. It was the vision of the Delectable Mountains, reached at length after many sacrifices, falls and stumblings, that Nicholson had always before him, and it was something of this vision that he tried to share with his readers.

W. R. SCOTT

Frederick Lavington

The Cambridge School of Economics has suffered a severe loss through the death, on July 8, of Frederick Lavington, Fellow of Emmanuel College, and Girdlers' Lecturer in Economics in the University. Lavington was born in 1881, but it was not until 1908, after eleven years' service in the Capital and Counties Bank, that he went into residence at Cambridge. At the end of his first year he was given a scholarship at Emmanuel; in 1910, he was placed in the first class in Part I of the Economics Tripos, and in 1911, in the first class in Part II. He then received a research scholarship from his College, and in the following year he won the Adam Smith Prize for a dissertation on "The Agencies by which Capital is Associated with Business Power." By this record he was fully qualified for an academic career, but, although he keenly enjoyed the intellectual companionship of university life, Lavington's natural bent was towards administrative work, and in 1912 he obtained a post in the new Labour Exchanges Department of the Board of Trade. While there he became very seriously ill through some mysterious defect in his pancreas. He was told, on high medical authority, that he could not live more than six months, but the doctors were evidently unaware of the extraordinary tenacity of his spirit, and, though he never recovered his full physical vigour, he survived for over ten more years of active mental work.

Returning to Emmanuel College in 1918, Lavington was elected in 1920 to the Girdlers' Lectureship in Economics, and in the following year he published a substantial volume on *The English Capital Market*. In 1922, he received his Fellowship, and published a useful text book on *The Trade Cycle*. Despite his ill-health, he took an active part in the life of the University and his College; helping to draft the new statutes arising out of the report of the Royal Commission on Oxford and Cambridge; delivering his University lectures; taking part in the administrative work of the College; and presiding over the college Hockey Club and a lively Emmanuel Economics Society. The final breakdown of his health occurred through overwork connected with the Tripos examinations, and he died, as he was determined to die, in harness.

Lavington was the most orthodox of Cambridge economists. The whole Cambridge school is supposed, by some people, to be dominated by the teaching of Marshall, and it is true that Marshall's analysis is broadly accepted there as the background of economic

thought. But Lavington went much further than this. He seemed almost to believe in the literal inspiration of Marshall's *Principles*. His own work on the Capital Market was designed to fill in the details of one corner in Marshall's broad picture, but he held that the work of economic analysis had been practically completed, once and for all, by Marshall, and that only the application of that analysis to practical problems remained to be done. "It's all in Marshall, if you'll only take the trouble to dig it out," was one of his favourite dicta; and Marshall's lightest word on any economic point would carry extraordinary weight with him. Thus, in writing on economic subjects, he had something like an inferiority complex, and deliberately adopted an arid and pedestrian style. There is no trace in his books of his vivid personality, his keen appreciation of literature, or the vivacious wit and humour which lent colour to his conversation.

In other fields of speculation he accepted the authority of other guides, *e.g.* Herbert Spencer, with a like reverence, and though he kept these more in the background, his mental equipment included a series of dogmas, or premisses, of an unusually rigid character, resting on authority which it was blasphemous to challenge. This made argument with him, though always a delightful mental exercise, extremely difficult until one had understood the precise limits within which he was prepared to argue. But the agility and sardonic humour which he exercised in discussion made it well worth while to face this initial obstacle. In matters of conduct and personal relationships he had equally firm and peculiar standards, and no considerations of personal convenience would induce him to swerve an inch from the course they indicated, even in matters of small apparent importance. Withal, he was a delightful companion, and—if by some happy chance one had passed his obscure tests and qualified for his friendship—the best of friends. His were the buoyant spirit and high courage of an adventurer, sustained without the stimulus of external danger, and revealed in his long triumphant fight against physical disabilities to which a lesser personality would have soon succumbed.

H. W.

C. R. F. writes :—

"Lavington was the first and best economics pupil I ever had. He was several years older than the normal undergraduates, and came up from a London bank with two passions, one for the academic life of discussion and analysis, the other for the pulsating romance of the London money market. His essay on

the latter in Part I of the Economics Tripos extracted from us the unusual mark of 90 per cent. He was in his day an excellent superviser, because as an undergraduate he had known how to force the utmost from it;—he used to come from 12 to 1, so that there should be no one to follow. Two problems specially interested him in those days: the "particular expenses" curve and the validity of Consumer's Surplus; and neither was answered to his satisfaction until I had been on a special mission to Madingley Road. He always spoke with gratitude of his college, Emmanuel, for all it did for him, and as he grew in intellectual stature it was hard to believe that only a few years before he was a belated undergraduate, living on very little. Marshall was his hero, as of all of us; and there was in both of them that completeness of devotion and rigour of standards which are perhaps the greatest gifts that a teacher can bestow on those who sit around him."

Current Topics

We deeply regret to announce the death of Professor Sir William Ashley, a Vice-President of the Royal Economic Society and Professor of Commerce of Birmingham from 1901 to 1925. A notice of Sir William Ashley's life and work will be published in the December Journal.

The following have been admitted to membership of the Royal Economic Society:—

Ball, W. T.	Murase, Prof. T.
Crosara, A. A.	Paull, T. E.
Dewell, J.	Phillips, V. V.
Griffiths, G. C.	Robertson, H. M.
Highton, H. E. R.	Saha, J. N.
Hobson, W. C. H.	Sambrook, E. J.
Inns, H. J.	Sharman, J. W.
Jaffé, Dr. W.	Sloan, J. J. E.
Leigh, J.	Strong, E. I. E.
Maitland, M. M.	Sundram, C.

The following have compounded for life membership:—

Butterfield, W. T.	Ponsonby, G. J.
Duthie, N. W.	Richards, D.
Ganguli, B. N.	Soda, Dr. K.
Garver, Prof. F. B.	Stapleton, P.
McNair, W. A.	Vlasto, Miss O.
Nayar, C. L.	

The following have been admitted to Library membership:—

Aberdeen Public Library.
Academy of Commerce, Warsaw.
Handelshojskolens Bibliotek, Copenhagen.

We record with regret the deaths of the following Fellows of the Society:—

Professor Sir William Ashley	(elected 1890)
Swanston, D.	(,, 1925)
Wood, Rt. Hon. T. McKinnon	(,, 1890)
Wood, W. Allen	(,, 1920)
Yokobe, J.	(,, 1921).
Zorn, J. C. L.	(,, 1919).

The Council have made arrangements with the London and Cambridge Economic Service for the supply of certain additional publications without charge to all members of the Royal Economic Society. Full particulars are being circulated separately to members of the Society.

Professor Unwin's "Studies in Economic History," will be published shortly. It is hoped that members who have not yet subscribed for a copy on special terms (7*s.* 6*d.* post free) will send their applications as soon as possible to the Asst. Secretary, Mr. S. J. Buttress, 6 Humberstone Road, Cambridge.

The American Economic Association is publishing (at $4) a very interesting volume in honour of the eightieth birthday of Professor J. B. Clark. This volume is obtainable by members of the Royal Economic Society on the special terms of 11*s.* post free. Full particulars of this volume are being circulated separately to all members of the Society.

Our Japanese Correspondent writes:—

"Although the Budget for 1927–28, amounting to 1,759,000,000 yen, was passed by the Diet, the Bill to cover losses up to 207,000,000 yen, incurred by the Bank of Japan in discounting bills issued by the Taiwan (Formosan) Bank and other banks during the great earthquake led to the open disclosure of the abuses of banking credit, causing thereby a wholesale discredit of banking institutions in the minds of the public.

In order to relieve the Taiwan Bank, the Wakatsuki Cabinet determined to issue an emergency Ordinance to make advances to the amount of 200,000,000 yen. The plan was, however, opposed by the Privy Council, whose approval is required by the Constitution for such an Ordinance, and the Wakatsuki Cabinet resigned on the 17th. The branches of the Taiwan Bank announced suspension in Japan and abroad for three weeks on April 18th. A new Cabinet was formed by General Tanaka on April 20th, but the general unrest did not subside, and by April 21st runs on banks were threatened in all parts of the country. The new Government succeeded this time in getting the sanction of the Privy Council to the issue of an emergency Ordinance for a three weeks' moratorium, and all banks resolved to make April 22nd and 23rd national holidays. An extra session of the Diet was held from May 3rd to 8th, during which Bills (*a*) to cover any loss of the Bank of Japan up to 500,000,000 yen incurred in enabling banks to repay their deposits, and (*b*) to make advances to Formosan banks to the amount of 200,000,000 yen, were unanimously passed by the Diet. On the day, April 25th, when the moratorium Ordinance became effective perfect calm prevailed and public confidence was restored throughout the country. Steps are now being taken to carry out thorough reforms and reorganisations in the Taiwan Bank and banks in general."

"DR. FUKUDA'S works are now published by Dobunkan in eight thick volumes, under the headings of (Vol. 1) *Lectures on Economics*, (Vol. 2) *Discourses on People's Economy*, (Vol. 3) *History of Economics and Economic Science*, (Vol. 4) *Economic Study*, (Vols. 5 and 6) *Social Politics*, and (Vols. 7 and 8) *Economic Policies and Current Problems*. Regardless of the fact that the pages of each volume run from 1500 to 2800, and prices from 8½ to 15 yen, his works are widely read, the first two being in their seventh edition. The author must be congratulated on his success, and thanked for his great contribution to our study of economic science."

THE following appointments have been made in the University of Oxford :—

Mr. R. L. Hall, B.A., has been elected to an official Fellowship as lecturer in Economics at Trinity College. Mr. Hall went up to Magdalen College, Oxford, in 1923 as a Rhodes Scholar from the University of Queensland, and obtained a First Class in the School of Philosophy, Politics and Economics in 1926.

Mr. L. G. Robbins, B.Sc. (Econ.), lecturer at the London School of Economics, has been elected into an official Fellowship in Economics at New College.

The following appointments have been made in the University of Cambridge :—

Mr. Piero Sraffa, Professor of Political Economy in the University of Cagliari, has been appointed a University lecturer in Economics, and Mr. D. L. Burn, lecturer in Economic History in the University of Liverpool, has been appointed a University lecturer in Economic History.

The following appointments have been made in the University of Manchester :—

Mr. T. S. Ashton, M.A., Reader in Currency and Finance.

Mr. John Jewkes, M.Com., Lecturer in Commerce.

Mr. C. D. Campbell, M.A., Assistant Lecturer in Economics.

Mr. J. A. Bowie, Lecturer in Industrial Administration.

Mr. D. J. Garden, Lecturer in Industrial Administration.

Mr. M. L. Yates, Assistant Lecturer in Industrial Administration.

An Assistant lecturer in Economics will be appointed shortly at Auckland University College, New Zealand, at a salary of £450 rising to £500, but £50 less in the case of a married man. Further particulars can be obtained from the High Commissioner for New Zealand, 415 Strand, London, whom applications must reach before October 31, 1927.

The University of Melbourne has received a gift of £30,000 from Mr. R. B. Ritchie, a prominent pastoralist of Penshurst, Victoria, for the promotion of economic research. It is proposed to establish a Chair of Economics, the occupant of which will have adequate facilities for pursuing research into economic problems in Australia. At the present time the University has a Department of Commerce which provides considerable teaching in economics. With the new Chair in Economics it will be possible to establish an Honours Degree in Economics under the Faculty of Arts. The Council of the University will shortly proceed to appoint a new Professor, and it is expected that applications will be invited from economists in England and the United States.

A CORRESPONDENT writes to point out one or two slight mistakes in Mr. Gubsky's article in the June ECONOMIC JOURNAL. It seems that about 84 per cent. of the buildings in the towns are still left to private owners, and that only large houses with more than five flats have been retained by the Municipalities. Also, the Inheritance Tax, although it is exorbitant in rate, in fact yields practically nothing.

RECENT PERIODICALS AND NEW BOOKS

Journal of the Royal Statistical Society.

Vol. XC. Part II. 1927 (New Series). *Indices of Industrial Productive Activity.* A. W. Flux. An authoritative discussion of the data necessary and possible, their frequency of collection, and their available sources. The method to be followed in Great Britain, on the basis of the Census of 1924, is explained. *Statistics relating to the Wool Textile Industry.* G. H. Wood. An expert application of statistics to the measurement of the extent and distribution of the present depression in the Wool Industry. The conclusion is a depression figure of 25 per cent. for the whole industry. "There are no signs that the depression is lifting." *Wholesale Prices of Commodities in 1926.* Sauerbeck's index-numbers, continued by the Editor of the *Statist.*

Vol. XC., Part III. *National Health Insurance: a Statistical Review.* Sir A. W. Watson. A discussion of three aspects of the scheme, the movement of industrial population with reference to insurance, the incidence of the sickness and disablement experience of insured persons, and some questions of the birth-rate which arise on the maternity benefit insurances. *Practical Applications of the Statistics of repeated Events, particularly to Industrial Accidents.* E. M. Newbold. The problem of individual differences in accident liability, when other things are equal, is statistically examined, with tentative results.

Economica (London School of Economics).

June, 1927. *The Scope of Sociology.* M. Ginsberg. A tabulation of the objects of sociology, and suggestion of the most profitable lines of inquiry. *Friedrich von Wieser.* H. Higgs. A critical appreciation of Wieser and the position of his school. *The Genesis of Bank Deposits.* F. W. Crick. A closely reasoned argument on the question whether, or how far, the banks can "create" deposits. *Some Aspects of the History and Theory of Social Insurance.* A. Plummer. This number contains two interesting reviews, by Mr. L. Robbins on Mr. Hawtrey's economics, and by Mr. R. F. Harrod on Mr. Robertson's theory of banking policy and the price level.

The Economic Record (Melbourne).

May, 1927. *Central Banking.* Sir E. Harvey. In a number of reasoned propositions, principles are laid down which conform closely to English practice as regards central banking; "discount policy," as usually understood, is a noteworthy absentee from the list. *Economic Welfare and Racial Vitality.* W. Jethro Brown. The writer is unwilling to trust only to environmental changes, and an interesting critique on this subject is given. The power of man over nature may be abused, so as to weaken rather than strengthen. The emphasis must be on heredity and biological

fact. Suggested measures are public control over the right to marry, segregation or sterilisation of obviously defective types, encouragement of breeding by the more fit (by methods of redistribution), the control of immigration. *The Tariff Board of Australia.* R. C. MILLS. Includes an interesting history of Protection in Australia, and is to be read with two further contributions by J. B. BRIGDEN and L. F. GIBLIN to the discussion of *The Australian Tariff and the Standard of Living.* Other articles are on *The Course of Rural Land Values in New Zealand*, 1914–25, by J. B. CONDLIFFE and H. R. RODWELL; and on *Vitality of White Races in Low Latitudes*, by C. H. WICKENS.

Quarterly Journal of Economics (Harvard).

MAY, 1927. *The Evolution of Paper Money in England.* R. D. RICHARDS. Origins and early development, based on examination of the earliest surviving specimens, of which many interesting examples are given. *Some Positive Contributions of the Institutional Concept.* L. D. EDIE. A study based on the question how far environment and purposive change of conditions effect economic behaviour. Various applications are suggested in the field both of economic method and of such particular branches as control of distribution, of the conditions of production, and of consumers' choices. *The Monetary Theory of the Trade Cycle and its Statistical Test.* R. G. HAWTREY. What should statistics show in order to verify the monetary theory? How can statistical tests decide between it and the " capital goods " or " psychological " theories? *Labor Problems as treated by American Economists.* C. E. PERSONS. *Commercial Policy in Post-War Europe.* H. VAN V. FAY.

Review of Economic Statistics (Harvard).

APRIL, 1927. In an important article on *The Construction and Interpretation of the Harvard Index of Business Conditions*, in addition to a re-statement of methods employed, a reply is made to Mr. Karl G. Karsten's *Theory of Quadrature in Economics*, and to his discussion of the Harvard Indexes, in the *Journal of the American Statistical Association* for March 1924 and December 1926 respectively. *Money Rates, Bond Yields and Security Prices.* A study for the test period 1897–1913 of " the relation between the crossing-point of the curve of bond yields (or bond yields plus a constant) by the curve of money rates, and peaks and troughs of the curves for four series of security prices." *An Index of the Physical Volume of Production in Canada.* By H. MICHELL. *Review of the First Quarter of the Year.*

American Economic Review.

JUNE, 1927. *Land Rent and the Prices of Commodities.* H. G. HAYES. A re-statement of the critique of Ricardian economics as regards rent and prices. " If there is only one possible use, the causal relation runs from the price of the product to rent. But with alternate uses, the price of wheat is a factor in determining the supply, and consequently the price of corn." Where is the merchant's error, if he computes his rent with his other costs? Price is determined by total supply in relation to total demand. There are numerous margins of shifting production, even in the case

of highly efficient ("non-marginal") producers. (Are not all these propositions to be found, *e.g.*, in Marshall, without prejudice to the traditional rent concept?) *Economics of Business Fluctuations in the United States*, 1919–25. M. D. ANDERSON. A very complete and detailed statistical examination, which can scarcely be summarised. The questions raised are relation of consumers' income and volume of manufacture, prices and credit, business psychology and profit. The statistical method, tables of which are appended, deserves careful attention. This important contribution would be enhanced by a pointed statement of results; the reasoning is very close. *Distribution of Employee Stock Ownership*. W. C. FISHER. In this brief note it is pointed out that the figures "when reduced from their impressive totals, show some 4 or 5 per cent. of American industrial employees owning, or setting out to own, something like 5 per cent. of the shares of the companies for which they work, with half of these, perhaps, voting shares." Corporations ought also to state what are the grades of employees concerned. It is suggested that the higher staff may be chiefly interested rather than the wage-earners. *The McFadden Banking Act*. H. H. PRESTON.

The Journal of Political Economy (Chicago).

APRIL, 1927. *Adam Smith*, 1776–1926. J. H. HOLLANDER. A review of the "School," and of Smith's influence, so full of information on the course of economic thought, and the building up of its concepts and methods, that its separate publication would be welcome. *Adam Smith and Laissez-Faire*. J. VINER. Argues that Smith was not a doctrinaire advocate of the theory, that he realised the necessity for a "wide and elastic range of activity for government," that his prejudices "were against the powerful and the grasping," and "his sympathy with the humble and the lowly, with the farmer and the laborer." *Factors related to Lamb Prices*. M. EZEKIEL. *French Socialism and Franco-German Relations*. B. J. HOVDE.

JUNE, 1927. *Adam Smith: Moralist and Philosopher*. G. R. MORROW. An interpretation of Smith's economic position by reference to his *Theory of Moral Sentiments*. *Tendencies in Swedish Economics*. B. OHLIN *The British Coal Strike and After*. W. H. WYNNE. *Speculation and Land-Value Taxation*. H. G. BROWN. Is there speculation in land? If so, does land-value taxation discourage it? What other advantages may result from such taxation? *Federal Control of Commercial Banking*. C. O. FISHER.

Bulletin of the Bureau of Labour Statistics (Washington).

NO. 421. *Wages and Hours of Labour in the Slaughtering and Meat-packing Industry*, 1925.

NO. 423. *Workmen's Compensation Legislation of the U.S. and Canada as of July* 1, 1926.

NO. 424. *Building Permits in the Principal Cities of the U.S. in* 1925.

NO. 425. *Record of Industrial Accidents in the U.S. to* 1925.

NO. 426. *Deaths from Lead Poisoning.*

NO. 427. *Health Survey of the Printing Trades*, 1922 *to* 1925.

NO. 431. *Union Scale of Wages and Hours of Labour, May* 15, 1926.

No. 432. *Proceedings of the 13th Annual Meeting of the International Association of Industrial Accident Boards and Commissions.*

No. 434. *Labour Legislation of* 1926.

No. 435. *Wages and Hours in the Men's Clothing Industry*, 1911-26.

No. 437. *Co-operative Movement in the U.S. in* 1925 (*other than Agricultural*).

Wheat Studies of the Food Research Institute (Stamford University, California).

JUNE, 1927. *Comparative Levels of Wheat Prices in the United States and Canada.* Under the existing tariff, wheat prices tend to be higher in the United States than in Canada, although Canadian wheat averages higher in intrinsic quality. The premium on American wheats constantly fluctuates, but is seldom as high as the tariff duty.

JULY, 1927. *India as a Producer and Exporter of Wheat.* This is an authoritative and comprehensive study, fully documented with statistics. India is the fourth greatest wheat grower in the world, after the United States, Russia and Canada. But as an exporter she is of diminishing importance. The average net export for the 11 pre-war years was 45 million bushels, but since the war the average has been only 13 million bushels. The prospect is that consumption will keep pace with increases in production, and that India will remain a minor and erratic contributor to the world wheat trade.

Journal des Économistes (Paris).

MAY, 1927. *Les Grandes Compagniés de chemins de fer en* 1926. G. DE NOUVION.

JUNE, 1927. *L'orientation libérale de la Conférence économique internationale, et "l'Équilibre par en haut."* YVES-GUYOT. Logic of facts has compelled the Conference to adopt resolutions opposed to the "grand plan" of French protectionists. *La Banque et les hommes.* P. CAUBONE. The functions and qualifications of the banker in relation to his leadership and influence over clients and employees. *Une Enquête belge sur la journée de huit heures.* G. DU NOUVION. A discussion of the Belgian law of 1921, in the light of recent evidence.

JULY, 1927. *Quelques aperçus sur les Îles Britanniques.* YVES-GUYOT. Aspects of the economic position, positive and comparative. *La relèvement économique de la Hongrie.* E. HORN.

Le Musée Social (Paris).

APRIL, 1927. *L'équilibre économique des États-Unis au lendemain de la guerre.—La main-d'œuvre.* A. SIEGFRIED. The extent and causes of the rise of real wages, the growth of working-class investment, and of amenities.

MAY-JUNE, 1927. *L'Immigration ouvrière est-il organisée en France.* W. OUALID. A favourable review of the organisation and its results.

Revue d'Économie Politique (Paris).

MARCH–APRIL, 1927. This number consists of a comprehensive review for the year 1926 of *La France Économique*. General articles are on the course of population, of prices and incomes, and of foreign balances. Detailed accounts are given of the various aspects of Finance, Commerce, Production and Transport, and Labour.

Jahrbücher für Nationalökonomie und Statistik (Jena).

126 Band, 4 Heft. *"Institutionalismus" in der Nationalökonomie der V.S.* E. FLÜGGE. *Der moderne Kapitalismus und die Arbeiterschaft.* H. SCHACK. A morphological study. *Die Weltwirtschaftskonferenz.* E. HANTOS. The League of Nations has done little to create world economic solidarity as opposed to national protective practices, and world trading has lagged behind world production, hence the necessity of the Conference. The remedy for the present high prices and costs is international cartels. Rationalisation of production will cause transient unemployment, but all-round gains will accrue later. Cartels are fostered by developments in technical science. *Der Einfluss des Bergarbeiterstreiks auf einzelne Gewerbe in Grossbritannien.* R. SCHINKÖTHE. The analysis relates to certain major industries.

126 Band, 5 Heft. *Das magische Erlebnis in den Anfängen der wirtschaftlichen Arbeit.* H. KRÖGER.

126 Band, 6 Heft. *Naturrecht und Volkswirtschaft.* J. JASTROW. *Das magische Erlebnis etc.* (Schluss). H. KRÖGER.

Schmollers Jahrbuch.

51 Jahrgang, 2 Heft. Dr. SCHUMPETER gives a critical and expository survey of Cassel's *Theory of Social Economy*, which he declares to be pre-eminently in use among German teachers. Other papers discuss the future of National Economic Empiricism, and the position of law in scientific economic study.

Archiv für Sozialwissenschaft und Sozialpolitik (Tübingen).

APRIL, 1927. In a review article, Professor ALTMANN deals with Dr. Schacht's book on the stabilisation of the mark. A very clear précis of stabilisation policy, methods, and effects leads to an argument for free international exchange of goods, and a revision of the Versailles Treaty. Other articles are on the conception of elasticity in economic theory, and on some problems of Chinese economic history.

Zeitschrift für die gesamte Staatswissenschaft (Tübingen).

MAY, 1927. In discussing a psychology of socialism, Dr. EGNER refers to a recent work of Hendrick de Mans, who questions whether the War dispelled all hopes of international proletarian solidarity. Dr. EGNER criticises the German Socialists' insistent adherence to Marx, and argues that present-day Socialism is the index of an inferiority complex. As such it refers to discontented wage-earners, but real Socialism is only to be found among intellectuals. —A critical appreciation is given of the work of Heinrich Pesch (1854–1926).

Zeitschrift für Volkswirtschaft und Sozialpolitik (Vienna and Leipzig).

MAY, 1927. Dr. MAYER contributes a memorial article on Friedrich von Wieser, and Dr. MORGENSTERN one on F. Y. Edgeworth.

Vierteljahrshefte zur Konjunkturforschung (Berlin).

2 Jahrgang, Ergänzungsheft I. *Die Bewertung des deutschen Aussenhandels auf der Grundlage der Vorkriegswerte.* (Official.) *Beiträge zur Erklärung der strukturellen Arbeitslosigkeit.* Prof. O. VON ZWIEDINECK SÜDENHORST.

Weltwirtschaftliches Archiv (Jena).

JULY, 1927. *Volkseinkommen und Volksvermögen.* F. VON GOTTL-OTTLILIENFELD. A methodological critique. *Ist eine Modernisierung der Aussenhandelstheorie erforderlich?* B. OHLIN. A criticism of the assumption of the Ricardian method, concluding that foreign trade is to be regarded from a broad international standpoint, as a special case of inter-regional trade. *Are Interests of Peace and the Interest of Economic Concentration reconcilable?* C. E. MAGUIRE. A discussion of the origin, the policy, and the economic effects of the foreign debts due to America. *Zur Deutung des Imperialismus.* J. HASHAGEN. *Die französische Währung seit Kriegsende.* G. RAPHAËL. *Prolegomena zum weltpolitischen Bevölkerungsproblem. Italien und Frankreich.* R. MICHELS.

Monatsberichte des österreichischen Institutes für Konjunkturforschung (Vienna).

1 Jahrgang, Nr. 1–6. The introductory volume of this Institute, which has taken up for Austria the monthly investigation of business conditions. The Institute is under the direction of a Kuratorium representative of all sides of economic life, and is in the immediate charge of Dr. Friedrich A. Hayek. The contents of this issue are: (1) *Die Methoden der Konjunkturforschung und ihre Anwendung auf Österreich*; (2) *Die gegenwärtige Wirtschaftslage Österreichs*; (3) *Die Konjunkturentwicklung im Ausland.*

Giornale degli Economisti (Rome).

APRIL, 1927. *L'Industria Zolfifera Siciliana.* GAETANO ZINGALI. A detailed and thorough account of the recent history of the Sicilian sulphur industry, and of its present crisis, as a result mainly of the growth of American production and exportation, but partly also of the faulty policy of the compulsory cartel by which the Sicilian industry is controlled. Much importance is attributed to the agreement as to prices and fixed quotas of exportation arranged in 1923 between the American and Italian interests. *Il Porto di Napoli (continuazione).* F. MILONE.

MAY, 1927. *Luigi Luzzatti.* ULISSE GOBBI. *Luigi Luzzatti.* BENITO MUSSOLINI. A commemoration number for the late distinguished founder of the Banche Popolari. *Il porto di Napoli (continuazione).* F. MILONE.

La Riforma Sociale (Turin).

MARCH–APRIL, 1927. *Prestiti esteri e bilancia dei pagamenti internazionali.* LUIGI EINAUDI. "Foreign commercial borrowings are

advantageous provided that they give rise to a net increment of national production at least equal to the burden of the annual interest on the debt." There is a danger lest the ease of obtaining loans from abroad may lead industrialists to pay out too large a proportion of their profits in dividends instead of putting them to reserve. *Fallimenti e rincaro della vita.* ITALO RICALNOVI. A study of the social losses due to bankruptcy, with suggestions for legal and other reforms.

MAY–JUNE, 1927. *Intese internazionali per la riforma tributaria.* BENVENUTO GRIZIOTTI. The problems of double taxation and of fiscal evasion are discussed and further investigation and international co-operation are recommended. *Per vincere la battaglia del grano.* PRIMO BANDI. A plea for the more intensive cultivation of the soil, especially of the hill country of Italy. *Per una ricerca sullo traslazione dell' imposta mobile ed in ulteriore critica del progetto Rignano.* LUIGI EINAUDI. A long and interesting critical survey of the Colwyn Committee's report on National Debt and Taxation. The Majority and Minority Reports are not so much "conservative" compared with "socialist" as "Marshallian" compared with "Webbian." The stress laid in English thought on the need for the redemption of the National Debt is due to the failure to recognise the fact that by degrees the burden of the debt is largely removed as the holdings become ever more widely distributed amongst the population. The arguments of the Majority Report against the Rignano scheme show that the cold reception of this scheme in Italy is not merely due to the fact that "a prophet is not without honour save in his own country." Further reasons are given to prove the unworkability of Rignano's proposals.

Scientia (Bologna).

MAY, 1927. *Un élargissement de la doctrine et de la pratique coopératives.* B. LAVERGNE. An account of the "co-opératives autorisées" in Belgium. These retain the co-operative basis, but are established by the initiative of public authorities. Examples are the *Crédit Communal*, the *Sociétés Nationales des chemins de fer vicinaux, des distributions d'eau, des Habitations à bon marché.* A condominium has been established between public authorities, supplying the capital, and the co-operatives responsible for the local sales.

JUNE, 1927. *La crise de cherté de la vie et ses répercussions sociales.* E. M. SAINT-LÉON. An analysis of the incidence in France, which works out to the expectable conclusions, as between agriculturists, industrialists, the professional and investing classes.

De Economist (Rotterdam).

FEBRUARY, 1927. *Het substitutieprincipe als theoretische kern der bedrijfshoudkunde.* W. L. VALK. *De wetgeving op de Grondbelasting.* H. P. CRAMER. *Der intronationale Giroverkehr.* J. WOLF. *Enkele opmerkingen over het begrip "rechtvaardig loon."* J. B. DE HAAN.

MARCH, 1927. *Nieuwe mogelijkheden voor Suriname.* J. C. KIELSTRA. *Het toerekeningsprobleem bij J. B. Clark, I.* P. LIEFTINCK. *De werkgeversorganisatie in Nederland.* B. BÖLGER.

APRIL, 1927. *Het toerekeningsprobleem bij J. B. Clark, II.* P. LIEFTINCK. *Nog enkele opmerkingen over het begrip rechtvaardig loon.* A. A. VAN RHIJN. *Maximum-bevolking van Nederland.* G. A. H WIEBOLS.

MAY, 1927. *De controle-cijfers van de Russische volkshuishonding voor het jaar* 1926–7. J. J. BOASSON. *De Schatkist en de Nederlandsche Bank.* A. VAN GIJN.

JUNE, 1927. *Het object der ekonomie.* J. B. DE HAAN.

Revista Nacional de Economia (Madrid).

MARCH–APRIL, 1927. *Arbitrios del vecino de Tarancón Francisco de la Fuente.* C. ESPEJO. *Cinco años de ordenación bancaria.* C. MASSO. *Dinámica del cambio de la peseta.* O. F. BAÑOS. *El timbre de negociación.* J. DE LANUZA. *La hacienda inglesa.* M. FANNO.

MAY–JUNE, 1927. *Tres años del nuevo régimen ferroviario.* F. J. ONTIVEROS. *Problemas de urgencia.* J. E. DE MOLINS. *Las Haciendas locales.* A. HEREZA. *Dinámica del cambio de la peseta.* O. F. BAÑOS. A statistical and graphical investigation based on monthly data since 1906. *Las ventas a plazo corno un nuevo factor del crédito internacional.* W. GRAHAM.

Vestnik Finansov (Moscow).

MARCH, 1927. *The Principal Tendencies in the Development of the Commodity Market, and the Outlook of the Economic Policy.* S. A. PERVUSHIN. Other articles on "the accumulation of capital in the U.S.S.R."

APRIL, 1927. Contains articles on agricultural taxation, the marketing of corn, and excess profits duty. All articles are in Russian.

Conjuncture Institute (Moscow).

Vol. III. Issue I. The following articles are printed in English. *Credit and Conjuncture.* N. SHAPOSHNIKOFF. *The Summation of Random Causes as the Source of Cyclic Processes.* E. E. SLUTSKY. *Dynamics of Money Circulation, Goods Turnover, and Prices, with regard to their Interconnection.* (*Equation of Exchange under Present-day Soviet Economic Conditions.*) M. V. IGNATIEFF. *On Economic Equilibrium. The Problem of Equilibrium in Economics and Classical Mechanics.* T. RAINOFF.

Skandinaviska Kreditaktiebolaget (Quarterly Report: Stockholm).

JULY, 1927. *Are we faced with a continuous fall of prices?* G. CASSEL. Continuing his discussion of this question, Professor Cassel points out the dangers of a scramble for gold, in view of expected shortage of supply, and argues that "it is essential now to gain acceptance for the view that the central banks can very well manage with a lower percentage of gold covering than has hitherto been usual," as a factor in international co-operation to limit the demand for gold.—There are brief notes on various aspects of the economic situation in Sweden.

International Labour Review (Geneva).

APRIL, 1927. *International Labour Legislation in the Light of Economic Theory.* H. FEIS. The main influences of international com-

petition are beneficial, but the problem of shifting employment is a serious qualification. International agreements may be advantageous to all concerned by preventing temporary disorganisation, the drift of industry to places of low standards, and unequal distribution of the product. But they may involve economic losses, by imposing conditions on development. Yet they may react on *the general effort for improvement*, by example and otherwise. Too much uniformity should be avoided; allowances are, in fact, made in practice. *The Austrian Works Councils Act in Practice*, II. E. ADLER. The problem of dismissal, and immunity of members of Works Councils. The employers are now reconciled to the Councils, and the efforts of the workers are concerned with reasonable extensions, not with revolutionary reforms. *Vocational Guidance in Great Britain.* C. E. CLIFT. A historical appreciation. *Industrial Unionism in the Building Trades of the United States.* E. E. CUMMINS.

MAY, 1927. *The Place of Sickness in the National Health System.* Professor G. LORIGA. *The Administration of Labour Law in Germany.* H. SIEFART. *Credit Co-operation as adapted to the Needs of the Worker.* R. F. BERGENGREN.

JUNE, 1927. *Trade Organisation in Italy under the Act and Regulations on Collective Relations in Connection with Employment.* H. E. G. BOTTAI. *National Co-operative Organisation in Spanish Industry.* COUNT DE ALTEA. *The Place of Prevention in Social Insurance.* A GRIESER. *The Administration of Labour Law in Germany, II.* H. SIEFART.

NEW BOOKS

British.

BRIDGES (A.) and DIXEY (R. N.). Sugar Beet: Costs and Returns for 1925–6. Oxford: Agricultural Economics Research Institute. Pp. 71. 2*s*. 6*d*.

CHABLANI (H. L.). Some Aspects of the Indian Currency Problem. Delhi. Pp. 57. 1 *rupee*.

DAS GUPTA (B. B.). Paper Currency in India. Calcutta University. Pp. 331.

Department of Overseas Trade. Reports on the Present Position and Tendencies of the Industrial Arts. Pp. 208. 7*s*. 6*d*.

Dominion Bureau of Statistics. Sixty Years of Canadian Progress. Ottawa. Pp. 168.

FAYLE (C. E.). The War and the Shipping Industry. Economic and Social History of the World War. Oxford University Press. Pp. 472. 17*s*.

FRIIS (A.). Alderman Cockayne's Project and the Cloth Trade. The Commercial Policy of England in its main aspects, 1603–25. Milford. Pp. 511.

GOODLIFFE (W.). Credit and Currency. King. Pp. 178. 8*s*. 6*d*.

GUNN (J. A.). Livelihood. Being Part Two of "Human Society." Melbourne: Massina and Co. Pp. 232. 10*s*. 6*d*.

HAWTREY (R. G.). The Gold Standard in Theory and Practice. Longmans. Pp. 124. 3*s*.

HOBSON (J. A.). The Industrial System. Revised Edition (Reprinted). King. Pp. 338. 7*s*. 6*d*.

KERR (R. B.). Is Britain over-populated? R. B. Kerr. 1927. Pp. 118. 1*s*.

League of Nations Union. Towards Industrial Peace. Being the Reports of a Conference held at the London School of Economics, Feb. 1–4, 1927. King. Pp. 286. 6*s*.

LEHFELDT (R. A.). Descriptive Economics. Milford. Pp. 112. 2*s*. 6*d*.

MEHTA (N. B.). Indian Railways: Rates and Regulations. King. Pp. 188. 10*s*. 6*d*.

QUIGLEY (H.). Towards Industrial Recovery. Methuen. Pp. 191. 4*s*. 6*d*.

SHAH (K. T.). Sixty Years of Indian Finance. King. Pp. 534. 21*s*.

SHAW (W. H.). Currency, Credit and the Exchanges (1914–26). Harrap. Pp. 203. 7*s*. 6*d*.

TUPLING (G. H.). The Economic History of Rossendale. Manchester University Press. Pp. 274. 21*s*.

WALLACE (W.). Business Forecasting. Pitman. Pp. 117. 7*s*. 6*d*.

American.

FOSTER (W. F.) and CATCHINGS (W.). Business without a Buyer. Houghton Mifflin Co., Mass. Pp. 205. $2.

JAMES (G. M.). Man and Society. Wisconsin: Banta Publishing Company. Pp. 105.

KINSMAN (D. O.). Economics, or the Science of Business. Ginn and Co. Pp. 366. 7*s*. 6*d*.

LA DAME (M.). Securing Employment for the Handicapped. Welfare Council of New York City. Pp. 133. 50 cents.

MOYER (G. S.). Attitude of the U.S. toward the Recognition of Soviet Russia. University of Pennsylvania. 1926. Pp. 293.

PERKINS (D.). The Monroe Doctrine, 1823–1826. Harvard Historical Series, No. 29. London: Milford. Pp. 280. 15*s*.

SNYDER (C.). Business Cycles and Business Movements. Macmillan. Pp. 318. 25*s*.

TAKEZAIVA (M.). The Penetration of Money Economy in Japan. Columbia University Press. Pp. 159. 9*s*.

German.

ATZLER (E.) (Ed.). Körper und Arbeit. Leipzig: Thieme. Pp. 770. 42.50 *m*.

BRENTANO (L.). Eine Geschichte der wirtschaftlichen Entwicklung Englands. I. Band. Von den Anfängen bis gegen ende des 15 Jahrhunderts. Pp. 396. 15 *m*. II. Band. Die Zeit des Merkantilismus. Pp. 453. 17 *m*. Jena: Fischer.

FÖLDES (B.). Finanzwissenschaft. Zweite, neubearbeitete Auflage. Jena: Fischer. Pp. 683. 30 *m*.

LOTZ (W.). Der Finanzausgleich und Bayern. Tübingen: Mohr. Pp. 47. 1.50 *m*.

MEYER (O.). Die Stellung der Aerzte in der deutschen Krankenversicherung. Rostock: Hinstorff. Pp. 143.

MÜHLENFELS (A. VON). Steuerkraft und Wohlstandindex. Leipzig: Akademische Verlagsgesellschaft. Pp. 81. 5.70 *m*.

SKALWEIT (A.). Die wirtschaftliche Emanzipation Südamerikas. Jena: Fischer. Pp. 30. Kieler Vorträge, No. 20.

STOEGER (M.). Die Wiedereinführung des Terminhandels in Baumwolle in Bremen im Jahre 1925. Hamburg University. Pp. 32.

WEBER (A.). Arbeitskämpfe oder Arbeitsgemeinschaft. Tübingen: Mohr. Pp. 34. 1.20 *m*.

WEHRSTEDT (K.). Die handelspolitische Bedeutung der deutschen Kolonien. Hildesheim: Borgmeyer. 1926. Pp. 241.

WIEDENFELD (K.). Kartelle und Konzerne. Berlin and Leipzig: de Gruyter and Co. Pp. 83. 3 *m*.

French.

NOGARO (B.). Finances et politique. Giard. Pp. 220. 30 *fr*.

OLIVIER (M.). Les nombres indices de la variation des prix. Giard. Pp. 484. 50 *fr*.

RUEFF (J.). Théorie des phenomènes monétaires: statique. Payot. Pp. 368. 40 *fr*.

SACK (A. N.). Les effets des transformations des États sur les dettes publiques. Sirey. Pp. 608. 80 *fr*.

VIRLOGEUX (M.). Quelques aspects de l'évolution des prix. Giard. Pp. 204. 25 *fr*.

Italian.

CAMPESE (E.). L'assicurazione contro la disoccupazione in Italia. Roma: Provveditorato generale dello Stato.

EINAUDI (L.). La guerra e il sistema tributario in Italia. Bari: Laterza. (Carnegie Peace Endowment.)

GINA (S.). Scienza economica e assicurazioni sociali. Torino: Bocca. Pp. 131. 18 *lire*.

GRAZIADEI (A.). Capitale e colonie. Milano: Casa Editrice Sociale.

GRIZIOTTI (B.). Politica monetaria e finanziaria internazionale. Milano: Soc. An. Istituto editoriale scientifico. Pp. 410.

LUZZATTO (F.) and others. Le brughiere. Piacenza: Consorzi agrari.

RICCA-BARBERIS (M.). Sul Diritto della guerra e del dopoguerra. Torino: Bocca. 1926. Pp. 362. 40 *lire*.

VIRGILII (P.). Le colonie Italiane. Milano: Hoefli. Pp. 242.

THE ECONOMIC JOURNAL

DECEMBER, 1927

RATIONALISATION OF INDUSTRY[1]

I

A VERY remarkable change took place after the war in the expression of both public and economic opinion in respect of what may generally be described as the problem of industrial leadership. In the former period the growth of great concentration of control over production was regarded with distrust, and as a thing which had to be carefully watched in the interests of the community. While it was admitted that the old theory of competition was not working without disadvantages, it was believed that, all over, these were less than the disadvantages which might result from anything monopolistic. It was considered that the anti-Trust legislation of the United States and other countries was a serious and wise attempt to deal with a public danger. The theory of business profit was connected with the fact that risk was paid for, and had therefore to be taken; that enterprise essentially involved this risk-taking function of the producer; that the best risk-takers would win in the competitive struggle, and that it was in the general interest that the worst should be eliminated. Because of Joint Stock, the units of enterprise became larger and more powerful, and this by itself tended to make competition more intense; so much so that it became usual to apply military terms to the relations of producers, to speak of "the war of competition" that was fought between the "captains of industry." But there was no settled opinion that, alongside of the growth of Joint Stock, there had not grown up conditions which qualified the risks of competition; transport widened the market, there was a great organisation of market intelligence, big concerns knew more about each other, and in many ways they co-operated more fully than would have been possible if they had remained more numerous and less powerful. There was a recurrence before public Commissions

[1] Presidential Address to Section F of the British Association, Leeds, 1927.

and inquiries of all sorts, of the producers' view that competition had become anarchic, chaotic, excessive, unregulated or destructive. But this kind of complaint did not translate itself in all countries into the obvious methods of remedy by combination. It was always said that British producers remained comparatively individualistic in their attitude, meaning that they were unconvinced by the arguments used elsewhere. The American combination movement was often explained by the special effect which her high tariffs had in over-capitalising protected industries, and causing on that ground an excessive competition that need not have happened. Again, it could not be said that, given private enterprise and the risks it implied, there was such a tendency to bankruptcy as to show an irrational position. Over the period 1903 to 1912, for instance, the statistics of liquidations of Joint Stock Companies in England were on the average as follows:

Companies on the Register.	Paid-up Capital (1,000's).	New Companies.	Liquidations.	Capital involved in liquidations (1,000's).
40,101	1,862,107	5,028	1,860	54,531

This was an average rate of liquidation of $4\frac{1}{2}$ per cent. of companies, *involving* 3 per cent. of the capital. It is not an unqualified record of competitive results, because no country was without some extent of combination. But it is the record of prevalently competitive conditions, including those which obtained under partial forms of combination.[1]

Public and economic opinion had come by stages to tolerate, approve, and recommend labour combination. But the conditions are different, because an individual workman is not related to others, as one business concern is to its competitors. Labour is necessarily employed in groups. In any case, Trade Unions applied to only one factor of production, but combination of businesses applied to the whole product as it came on the market.

Thus, on the whole, the combination movement was a "problem." Books were written under such titles as "The Trust Problem," "Wealth against Commonwealth," "Frenzied Finance," "Trusts and the State," "The New Feudalism," and so forth. To call a certain result a "problem" does not mean that it must be stopped, but it implies doubt, refusing to certify the results as rational and inevitable. The United States in particular legislated to break up combines of a certain degree, and to impede their methods of working.

[1] These figures are, of course, not comparable with vital statistics.

II

The post-war tendency is to change this attitude. The alteration in point of view is very remarkable. Anyone can see this who reads the documents submitted on the subject to the World Economic Conference. One writer confidently states that the right thing to do now is " to form as many international agreements of producers as possible." But these agreements usually presuppose national combines which are parties to them; and if world economy requires the combine formed by agreement (the Cartel), then *a fortiori* of the national economy.

This change of attitude has been urged both on public opinion and on producers under very high auspices. The Reports of the Reconstruction Committees on *British Industries after the War* are unanimous in asking for a change of the public attitude toward producers' combinations. The Report of the Balfour Committee on Efficiency puts questions of combination in the forefront. It is not easy to appreciate this without considering the future to which such an impulse may lead, in respect of our attitude toward organisation. There are three large conceptions that are related to each other—competition, combination, and public administration. A change equal to that which has taken place in reference to the first two of these would carry us far from the second toward the third. Public industrial administration, in its broad features, is as much, but no more, distrusted now by prevalent opinion than the Trust Movement used to be. It is well to keep this in mind in dealing with the recent evolution of opinion.

The change is due to a few separate causes. The war enforced a good deal of co-operation, since the Government had to deal with producers as a group in their industries. In some industries it led to constructions which the market could not afterwards carry at their capacity, and combination is a method of regulating excess of capacity. In some cases Governments have, because of special national interests, been a party to the formation of large combines. All this influences opinion. But most important of all, as the Geneva documents show, has been the reaction upon national ideas of the international industrial proposals. The formation of the International Steel Agreement was a powerful influence in this direction. There were two special reasons for this—its semi-official support by the political governments involved, and, above all, the fact that it could be presented as a form of pacification between Germany and some of her former

enemies, especially France. If this could be done once, it could be done again. There had formerly been international agreements, it is true, but they were not so sure of their welcome as they might be after all that was written of the Steel Cartel. Their claims became more confident, and this meant that combines within each country were also placed in a more favourable position than before.

The leadership came from Germany, and for that reason we have now the ponderous name of "rationalisation" to describe *methods* which depend upon this *policy*. This word may be used of such results of large-scale production as standardisation, and it is also used of the more broadly applied system of scientific management. This paper is not concerned with these aspects of the idea. It is obvious that internal business administration should be scientific, and it is entirely for the heads of businesses to discover the right technical methods; the "planning" of work seems to an outsider to be something which ought always to happen, and it is remarkable that this *general* conception should still be taken as noteworthy. Standardisation of final products seems, from the public point of view, less completely rational than simplification of processes. But, from such bases, "rationalisation" has been built up so as to imply the right organisation of an industry considered as a type of government, the producers being so related as to enable such policies to be applied as works specialisation, non-destructive elimination of the weak, and the control over the entrance of new establishments. Now this in turn implies some degree of monopolistic control. And it appears to be historically the case that, when the leaders of German industry found themselves, after the war and the Treaty of Versailles, in conditions confused by inflation and the loss of the sources of supply in the Rhine Provinces, they sought to justify the great combines which were formed by a title which would give them the strongest commendation. Pre-war Germany did not like Trusts or Concerns. For a time, at least, strong personal leadership seemed necessary after the war. And the conception of "rationalisation" which was adopted and urged, as the highest form of what was scientific in business management, had a successful flotation, and has crept into the terminology of organisation of industries.

The World Economic Conference did not give to these claims the endorsement which they hoped to obtain. We get only the conclusion that combines may be good or bad according to the motives and outlook of those who direct them. This means

that, as economists, we have to return, without any prejudice from names and titles, to the study of a stage of evolution, taken as actual. The change in public opinion must no doubt also be taken as a fact. But this is a thing which may at one time swing toward the producer, at another toward the consumer, according to the conditions of the economic conjuncture. At present the difficulties of the producer are more prominent than usual. On the other hand, in the immediate post-war boom, we had the Committee on Trusts, the Profiteering Act and its Committees, and a different attitude toward what had not yet come to be called rationalisation. From any long point of view, a perplexing problem is offered, because if on the one hand it is held that industrial joint-stock competition is becoming irrational in intensity, and will be destructive of itself as one industry after another reaches an advanced stage of capitalist organisation, on the other hand monopolist tendency is also unstable in face of public criticism. Hence some dread, and others hope for, more attention to the third method, that of public control, applied at any rate in some large instances.

III

But it is still possible that, besides the insecurities and instabilities of competition and the dangers of monopolist influence, there may be another idea according to which private enterprise may work out its future. This is the idea of leadership. It was the view of the Balfour Committee that, if industry was to be adequately responsive to changing conditions, and was to develop co-operation amid competition, it would specially need "the exercise of the highest qualities of imaginative leadership." If we compare industry with the other great systems of administration—political, military, and ecclesiastical—it is evident that the latter exist as systems because leadership has a definite place within them. They are organised under this form. In industry the fact is tending to obtain more consideration, but the question is of its formal recognition and status. Policy means leadership, and leadership means control; to control anything well, it is necessary to control a large part of it; and industry is so far from being, as regards conceptions of organisation, *in pari materia* with other organised forms of activity, that definite leadership has to overcome objections of a quite unique kind. This is because of a fundamental difference between industry and the public services, in respect of their immediate

aims, and of their relation to the idea of responsibility. It will later be seen how this affects arguments relating to industrial control, and to the creation within industry of any sort of employees' franchise—an idea brought over from politics, on the implied assumption that politics is the type of democratic and responsible control. Meanwhile it is necessary to show how evolution has created the leadership in industry which seeks to confirm its position by combination, but whose "sanctions" create the industrial problem referred to above.

An analysis was made of the data furnished to the manufacturing Census of the United States in 1919, which showed that, even in that country of large enterprises, the home of the Trusts, most businesses still operate single establishments. Grouping of establishments under one control, extending from groups of two to groups of over a hundred establishments, accounted for only about 7½ per cent. of all the establishments operating. The large groups which make possible a strong personal leadership in industry must therefore still account for a small percentage of all the producers. The persistence of the producer of small or moderate size is still a marked feature of modern industrial organisation. The following analysis of the facts may be taken as a basis of the present position. It refers to manufacturing industry, exclusive of what are called "hand and neighbourhood (or local)" industries, such as the village blacksmith. No establishment is included which did not have a product worth 5,000 dollars in a year. The basis of this comparison from 1909 to 1923 is the number of persons employed per establishment.

Wage-earners per Establishment.	Establishments per cent.			Wage-earners per cent.			Establishments (1,000's).	
	1923.	1914.	1909.	1923.	1914.	1909.	1923.	1909.
0–5	44·6	42·7	39·8	2·5	2·7	4·7	87·5	68·9
6–20	27·8	30·5	32·9	6·9	8·7	9·7	54·6	56·9
21–100	19·1	19·1	19·9	19·3	22·2	23·4	37·6	34·5
101–500	7·1	6·6	6·4	33·0	34·7	34·2	13·9	11·0
501–1000	0·9	0·73	0·69	14·1	13·5	12·7	1·8	1·2
1000 and over	0·5	0·34	0·29	24·2	18·2	15·3	1·0	0·5
							196·3	173·0

In this distribution the number of the smallest establishments in 1923 is inflated by the change in prices, which would bring

within the range of the Census a large number which would otherwise have been below the 5,000-dollar limit. Allowing for this, the persistence of establishments of moderate size is notable.

The average size of establishment in that country, when allowance is made for changes in classification, has increased since 1899 as follows:

Establishments.	Wage-earners per Establishment.		
	1899.	1914.	1923.
All	22·7	25·5	—
Over 5,000-dollar product	—	38·6	44·7
Index	100	112·3	130·3

the figure for 1923 being, in view of the classification and of prices, too small.

When account is taken of contribution to the national product, the data for 1923 show the following result (subject to gross product being a comparative index of net product):

Value of Product (1,000 dollars).	Establishments per cent.	Wage-earners per cent.	Product per cent.
5–20	31·6	2·2	1·1
20–100	36·9	8·2	5·7
100–500	21·4	19·6	15·7
500–1000	4·9	12·9	11·1
Over 1000	5·2	57·1	66·4

This last table shows in the most striking way the degree of leadership which has been obtained by the small number of large establishments. And so far as it is large establishments which enter into combinations, their influence over policy and prices is increased.

More detailed examination of particular industries shows that it is not only in the great industries that this result holds good. No relation exists between size of industry, expressed in persons employed, and scale of production, or concentration of power. Some quite small industries stand high on the list by both these tests.

Germany is more typical of older countries where family businesses have played a larger part than in America. In Germany, also, the Cartel system was, until the war, the usual way of obtaining control, and it tended, as compared with the

Trusts, to maintain the smaller establishments. The following gives a pre-war comparison, from which the very small establishments are eliminated:

Establishments employing	Per cent. of Establishments.		Per cent. of Employees.	
	U.S.A. 1914.	Germany. 1907.	U.S.A. 1914.	Germany. 1907.
6–50	75·5	87·1	20·0	35·2
51–100	10·8	6·7	11·8	15·4
101–500	11·4	5·6	35·7	32·8
500 +	2·0	0·6	32·5	16·6

For France, the general form of the table at the Census of 1921 is similar. As regards this country, the only data available are those of the capitalisation of Joint Stock Companies. Over the period 1919 to 1925, of all companies registered, only 2·6 per cent. had a capitalisation of over £200,000, while more than 67 per cent. were capitalised below £10,000.

In the conditions which these results show, the largest producers inevitably feel themselves drawn together in order to create an administration for their industry. Evolution has given them a possible leadership which they desire to confirm. The large fringe of smaller producers is felt to be an obstacle to this purpose. The position of the large producers gives them an oversight over the market the confirmation of which means the organisation of the industry against inroads and uncertainties, overlap and weak selling, and it is this further organisation which is presented as industrial rationalisation. Hence the terminology which is applied to the excesses, or destructiveness, or anarchy of modern industrial competition. As a matter of industrial psychology, the desire to be at the head of wide-reaching organisations may have just the same motives as the desire for control in other spheres. It comes up against the same problem of exceptions which political, military or ecclesiastical organisation wishes to incorporate in a system. It may indeed be said that, upon the possibility of creating in industry, and reconciling with public opinion, spheres of influence which will make industrial leadership as attractive as political or any other form of leadership, depends the supply to industry of the highest organising ability. There are recent cases in which, when such a sphere in industry was open, it has been preferred to political office. As compared with the services just mentioned,

industry had, however, to evolve into a condition of large and influential units of enterprise, in order that any further step might appear possible. The data quoted above show how this position has been reached.

IV

In the problem of industrial organisation there is involved an element which does not belong to the other great types of organisation. In the latter, the desire for efficient unity of control, strengthened by personal aspirations for great influence and authority, is not complicated by the special industrial fact that the resources involved are personal and subject to the risk of loss. It is in all the cases regarded as of national importance that resources should not be wasted or lost, and the desire for rationalisation appeals to this conception of general economy, but industry is unlike other administrations as regards the origin of resources and the incidence of liability. It is necessary, therefore, to consider to what extent the evolution just described affects this liability, as distinct from the pure impulse to higher organisation; that is to say, what is the place of mitigation of risk, as compared with that of leadership itself, in the movement for combination.

Leadership may be got either by fighting it out, the "method of bankruptcy," or by some method of absorption in one organisation. It is one of the claims of the combination method that, whether by Trusts or Cartels, the latter is adopted, so that the fringe of smaller businesses is more humanely or rationally dealt with than under the former method. On the other hand, the maintenance of over-investment in this way is often the basis of criticism of modern combines, because somehow it must be a charge on the community through prices, so that it is asserted that it is not the rational way of creating system.

And on the other hand, leadership may be maintained by steps taken to prevent or impede the entrance of new enterprises into the field. Development is desired from within, as far as possible through the discretion of one governing body. It is held that this also is the rational procedure, by which industries will become systems of administration, and, as will be shown later, impediments on independent new enterprises have sometimes been imposed with legal authority.

It is Joint Stock which has made possible the evolution of great enterprises, and which has also made them powerful competitors, so that, it is said, an ever intenser incidence of

risk is a fundamental cause of the combination method. But Joint Stock has also itself modified the risk element.

As long as an industry was in the hands of a large number of producers who were individual in the sense of finding their own capital, the competitive struggle, which destroyed a business, ruined individuals. There are modern instances of interference with this competitive result for this very reason, when an industry was still of that grade; for example, the remarkable scheme devised for the Greek currant trade, and known as the "Retention." As the ruin of individual small cultivators would otherwise have been the result, the Government organised a system of maintenance. But when the units of enterprise are Joint Stock Companies, liquidation does not imply ruin in the same way, because Joint Stock brought with it the method of distributed investment. In the case of failure, some people lose part of their capital; perhaps because some other investment of their own has been unusually successful. The ramifications of interests can now become very great, and the question, what method of creating industrial control is most rational, has to take account of this, in conjunction with the fact that profit involves a risk premium, and that these are the understood conditions of investment. By the fact of distribution of investment, the industrial risks of capital are to be contrasted with those of labour, since wage-earners as a rule can work for only one business at a time.

The same considerations apply to the entrance of new competition. Enterprises entering the field are not now individuals staking everything on little-known chances, but may be directed by and largely composed of individuals who are in that same field already, and who know a good deal of its conditions.

In a second degree, these modifications of personal risk appear, through the practice, also rendered possible by Joint Stock, of company investment. While the individual may distribute his direct investment, his risks are spread again by the system of mutual company holdings, a company in which he invests having done this further spreading for him.

While, therefore, the Direction of an independent business does and must consider its shareholders as if they had no other investment interests, the intensity of risk in its final incidence is not fully represented by Directors' statements. What applies to shareholders, also applies to Directors as such. The "spread" of Directors' interests is a very remarkable fact.

As distinct, therefore, from the pure desire to rationalise,

that is, to organise industry in a systematic way under some kind of unified control, it is not easy to assign its right place to the "revulsion against risk," on which also the desire for combination has rested its case.

It is always necessary to distinguish between risks which a combination may have been formed to overcome, and such as it may have created by its own policy. In many notable cases the alleged struggle against competitive risks was not so much "rationalising" as "de-unrationalising." The combine created conditions favourable to the new competition which had then to be humanely or "rationally" dealt with.

V

The foregoing considerations show that there is something to be said for capitalist evolution in the alleviation of risks; so that we cannot easily separate the risk element from the simple purpose of leadership and wide control. This desire for more extensive control is a feature merely of active enterprise and ambition; it has counterparts outside of industry. But as distinguished from, for instance, the tendency of public Departments to expand when they can, the mixture of risk with ambition is a special industrial fact.

The same is true, in a less degree, when the risks in question arise out of bargaining, not out of competition. Great industrial influence may be gained by the control of enterprises on different levels of production, which were not, therefore, formerly competitive. This comes into being as the last stage of the bargaining process, which is made closer by long contracts, exclusive contracts, and agreements for exclusive trade. Finally, the bargainers combine. There is something to be said historically for the view that such combinations have been formed defensively, if it is thought that horizontal combination on one level is exacting too high a price from producers on another level. Thus horizontal combination leads to vertical, and the former becomes split by the engagements of its members to deliver their supplies, not to the market, but exclusively to some further producers. The latter do not get their supplies by this method "at cost," but they get them free of the special combination profits on the earlier products. Thus a steel-works may buy up a coal mine in order not to pay the profits of a coal combine. These are incidents of industrial friction. But the permanent or rational aspects of this policy are again not purely industrial; they are more generally administrative, while having this industrial

application. It is natural for any great administration to consider the continuity of its relations with any supply on which it depends. Thus when a public Department takes over the service of education, it does not rely on the market to find a supply of teachers properly adapted to its requirements; it sets about securing them by its own arrangements. Analogies can be drawn also from ecclesiastical and military administrations. It is, in fact, difficult in many cases to say what is a single process, and how far unity of supervision must extend. Apart, therefore, from temporary or accidental causes, many administrations have to extend backwards or forwards from their main purpose, and in industry this is called vertical integration. In some industries the technical advantages are more obvious than in others; they appear to be greatest in the iron and steel trade. But broad considerations of administrative supervision may lead to its application in any case.

This form of combination, like the former one, may be undertaken for the simple purpose of leadership. But it creates this position only when the main administration is itself already so large as to give that position; and it does not by itself create monopolistic influence. When it is mixed with a large degree of horizontal control, it approximates to the third great type of aggregated interests—the Concern.

VI

Industry cannot be looked at only as a type of government because of its special relation to risks; but some of its modern developments are to be explained in large measure by reference to administrative ideas not peculiar to industry, and especially to the motive for extended leadership and influence. When we consider the "Concerns," we come to the case where technical economic reasons are least easy to assign. These have not the definite continuity of the other forms of control. They are of the nature of industrial aggregates or blocks. The interests which are thus grouped come within the control of one or a few single personalities who, because of the diversified nature of their influence, are rather magnates than leaders. Thus in the period of the German concerns we had the Stinnes, Thyssen, Kloeckner, Haniel and Stumm groups; and if, for instance, we examine the Stinnes group, we find that it includes iron and steel, special steel products, coal, electrical products, shipbuilding, shipping, chemicals, cables, aluminium, copper, automobiles, mineral oil, margarine, newspapers, fisheries and hotels,

and this is not a complete list. These interests are obtained largely by the method of holdings of shares, and the interests of one group may, within the same large enterprise, touch those of another, the ramifications being so numerous that it becomes difficult to say where one set of interests begins and another ends. The Concerns appeared in Germany in a time of great unsettlement, and their explanation—the sudden limitation of her resources by the Treaty, and the struggle to control what was left—is not a reason going back to economic considerations to the same degree as in the case of the other types. They do not appear to contribute to the solution of an economic problem, or to create a force of leadership for any permanent purpose of direction, and they cut across the lines of economic grouping. The Stinnes Concern broke down by complexity, and it appears that the remainder are being shaken out into parts which will adhere to one or other of the main lines of economic grouping and control. But grouping of this kind, on a lesser scale, is likely to continue, since it represents partly a type of ambition which is satisfied by variety of industrial interests, and partly the fundamental similarity of industrial finance, whatever kind of thing it is that is financed. It appears, from an official return, that 65 per cent. of the capital of companies in Germany in 1926 was still in Concerns.

VII

If we look at the picture which is being drawn by these forms of grouping taken together, it is something of this nature. On different levels, combination takes place by agreements or consolidations, that is, Trusts or Cartels in the usual sense. Though the aim of Cartels is to prevent the elimination by failure of smaller or weaker producers, in fact they tend to create consolidations, because they allow stronger members to buy up weaker ones, and thus to obtain their share of the allotted output. As Cartellisation extends, on each level there come to be predominant interests and decided leadership. But cutting vertically across this are the combinations which terminate on a product in the higher stages, these combinations having considerable shares in the output of lower products in a succession of stages. Of these lower products they use what they require for their own finishing processes, and put the rest on the market at Cartel prices. A strong vertical combination may have leading influence as regards both its final and its lower products. And dispersed in a less systematic way over the whole field are the holdings

which any large business has obtained in enterprises not closely related to any main purpose. All these interconnections, made possible by the flexibility of the Joint Stock system, and disturbing to the theory of economic competition and prices, suggest a few broad conclusions.

First, the *capacity* of either management or direction is more difficult to limit than that of technical industrial equipment. How broad, or deep, an area of enterprise can be singly managed is a question to which all this development is the only answer. And *a fortiori* of Direction. Examination of our own "Directory of Directors" shows how widely this consultative responsibility can be extended, before reaching the limit of its capacity. One prominent personality has thirty-two directorships, thirteen of which are Chairman's positions, and three managing directorships; some of the enterprises involved are among the largest of their kind; the range covers coal, railways, telegraphs, tea, asbestos, assurance, shipping, banking, general merchandise, canals. There are many cases where over a dozen of such important positions are singly held. These great extensions of control are to be related to the impulse to use the powers of management and direction at full capacity. On the other hand, a public Department, with much greater routine, is supposed to be one man's job.

Second, the *authority* of business leaders will increase with the magnitude of their engagements. An example of this was the hurried endorsement of the proposals for international agreements between large interests, on the repeated plea that we must not be "afraid of big business." This became, with marked rapidity, the right thing to say, and almost official sanction was given to recent conferences of business leaders simply because the interests represented, and the plans considered, were on the largest scale. Authority is always apt to be its own sanction, and in this case it claims that a measure of monopolistic power may be essential to a scheme of rationalisation. Industry being a field of more special knowledge than politics, the difficulty is greater of applying criticism to leadership; that leadership itself is more concerned with working out the administrative methods of higher control than with the question of its democratic position. "I do not consider," said one of the organisers of international industrial agreements, "whether I may make these agreements; I go on and make them." The relation of the community to this authority appears in the end to be determined by the expectation that scale of responsibility, and the labour of

organisation required for these great industrial structures, will tend to make leadership, in the words of the Balfour Committee, "imaginative," and therefore considerate. It was in this expectation that the recent Committee on Selling Agencies in the coal trade reconciled the dilemma that what was necessary for high organisation would create the possibility of monopoly. And so Liefmann says: "When one considers what efforts have been made in many industries to obtain combination, to find its most purposeful form, to bring in the outsiders, to settle the differences; when he sees what time and trouble are applied, how many conferences held and rules drafted; and when he considers the earlier conditions where such common negotiation, making the inner details of management a matter of conference and publicity, would have been impossible, then he sees how the whole economic structure has changed, and how much the Cartels have revolutionised the whole basis of management and enterprise." "The sense of interdependence becomes stronger than the thought of economic opposition."[1] This defines the difference between magnates and leaders, and the rationalisation of authority.

Third, there will be the fact of mere *complexity*, whether modified or not by publicity. Industrial government permits of this in a degree not reached in the other great fields of administration, political, religious and military. Its extent is shown, for instance, in the recent official German analysis of the cross-relations obtaining within and between the Trusts, Concerns, and Cartelled enterprises.[2] This maze of interconnections may become itself a matter of distrust and prejudice from the side of the community, especially but not exclusively in its international aspects. This prejudice showed itself at the outbreak of war in a well-known case, described as an "octopus" of private interests; or in the name, a "King of rats," applied to a control which has indefinitely extended underground accesses in all directions. Even if industrial finance is flexible enough not to feel anything unmanageable in this, the community, on occasions when such complexities are made public, is alarmed and disturbed, as if a march were being stolen on its market alternative, or Joint Stock practice going beyond the spirit of the law. Sheer complexity of relationships might be one of the influences moving opinion as far beyond the sanction of private combination as it has recently moved toward it. Democracy likes at any rate to think that it understands how it is governed.

[1] *Kartelle und Trusts*, 1924 Ed., p. 33.

[2] *Einzelschriften zur Statistik des Deutschen Reichs*: Nr. 1, 1927.

VIII

With the growth of industrial leadership a change takes place in the relation of price determination to the dynamics of production. The change is one of emphasis, that is to say, of the degree to which prices are approximated to a cost of production. Under a strictly competitive economy, there are producers who are just able to come through the fluctuations of prices with an ordinary rate of profit, and these producers are in that sense marginal. There is an amount of production, not always in the hands of the same producers, which is extra-marginal, and of course another amount which is intra-marginal. The general conditions of supply and demand determine the price level about which the fluctuations take place, and therefore determine which producers are marginal. The extent to which extra-marginal, or high-cost, producers influence price depends on trade practice; it is less, the more production is "to order," and they can keep their position only by working at lower than ordinary profit. In other words, prices are not usually determined by the costs of the highest-cost product, but the profit on that product is determined by the range through which prices have fluctuated over a period; and high-cost product has constantly to move to a lower-cost position, or go out of the market. The competitive equilibrium was not easy to define, but it depended chiefly on the output, and the elasticity of the output, of intra-marginal producers. It may be said generally that business administration was exercised on the problem of costs in relation to prices, which were the ruling fact, and which decided how much of the capacity of output was within, on, or over the lines of profitable production. It was always a mistake to argue, under these conditions, that there was a body of marginal producers who *determined* the price. So far as any producers did this, it was the largest, who were probably intra-marginal. All producers were, however, affected by the knowledge that, though expansions of their own output were possible and would be profitable if prices were affected by that alone, other producers would be competitively induced to do likewise, and so output was controlled by a sense of the market, which is a difficult thing to relate exactly to prices.

It is an aspect of "rationalised" industry, on the other hand, that the price can be more properly regarded as the *instrument of an industrial administration.* It separates itself some-

what from relation to any particular cost, and takes priority over the output, the latter being adjusted so as to render a certain price policy possible. The leaders of a great combine act under the conception of an industrial development which is frequently defined as the adaptation of the whole output to the possibility of certain prices.[1] This is seen in the details of the price policy of Cartels, where a margin exists between base prices and the "accounting" prices at which the output is taken over from the members; and also in the use of "guiding" prices in other cases. Even the "base" price, which was supposed to be related to a cost of production, has now been omitted from the contract of the Rhine–Westphalia Coal Syndicate. This instrumental use of prices is the result of the greater supervision which has been made possible by combination, and it causes the management to resemble an administration in which the methods of development are more capable of a general decision. If one looks at such great combines as exist in the tobacco or chemical industries, with their high degree of internal organisation and their external agreements, the management of the price will be a compromise between the interests of consumers, those of the shareholders, the provision of reserves for development, and contingencies. An assignable cost of production is less easy to set off against that price. In a sense, this means monopolistic influence; but monopolistic policy would be something else, the administrative idea of price policy being worked with a larger factor of compromise. It may be described as the "Safety first" policy in industry. The defence of "rationalisation" is just this difference between administrative and monopolistic prices, or at least the claim that there is such a difference.

To borrow the term which most usually describes it, this may be called the principle of *Anpassung*. It is *planmässig*, and different in its conception of the enterpriser's function from that more risk-taking pursuit of the consumer which trusts to new uses, substitution, and the future compensation for falling prices. It does not bank much on the long run, or the elasticity of demand. A workable price level being obtained, a tight rein is held over the pressure of output against it, and the price is "managed" so as to give only gradually to this pressure. Price stability *so obtained*

[1] "Die Preise auf einem gewissem Niveau zu halten, diesem Niveau die Produktionsgrosse anzupassen" (Saitzew). "Uber die Preisbildung hinaus gibt das Kartell den Unternehmern Gelegenheit, die gesamte Absatzorganisation der Gewerbe zu regeln" (Liefmann).

is taken as the index of industrial stability.[1] The level depends on the amount of administrative freedom which the combined producers have, and on the size of their coefficient of compromise. Thus parts of the " contract curve," between average cost and monopoly price, correspond to positions of highest cost, " dividend " prices (either when inflated capitalisation is to be made rentable, or when the industry accepts for itself an exceptional standard), prices oriented by effective new competition (*i.e.* by the breaking point of exclusive contracts), and prices oriented by the point of " own-production " by large buyers. Given the factors of an established position—the *Machtfrage* of the combines—and of compromise, the purpose is to assimilate the industry to an administration.

The administrative use of prices may also extend beyond the consideration of what will maintain and develop productive capacity in a particular industry. It has been claimed that strongly led combines may adjust their prices so as to assist the stability of industrial development as a whole. Thus a combine might, on a rising market, so advance its prices as to render expansion more difficult, and therefore so as to damp down that expansion. There are very few cases in which it can be said that industrial combines have applied this idea. Indeed it is significant that it is always the same case that is quoted, and one that happened twenty-five years ago. It has been considered that this policy is applicable mainly from the side of the banks, which, it is suggested, should move the price of loans quickly and strongly enough to deter speculative inflations of business and reduce fluctuations. To keep other things more steady than they might otherwise have been, one thing, the price of money, would thus be less steady than otherwise. This policy is not inapplicable to industries which are as fundamental as banking—for instance, to the coal industry, on whose supplies expansion depends as vitally. It is, however, unlikely that any industry will have the same degree of combination for this purpose which the great banks have; and the relation of such a policy to their own costs is more complicated than it is in the case of money. Where price administration has been applied for this purpose, it has been in the form of price-stability, as in the case of the German Coal Cartel. It is natural that this simple method should be applied, and anyone can fix a price,

[1] Cf. Wiedenfeld, *Gewerbepolitik*, p. 146, and the B.E.A.M.A. Report on *Trusts and Combines in the Electrical Industry*, p. 21, for typical and almost identical statements.

especially near the top of a boom, as was done in that case. It is, however, price adjustment that is required, a more difficult proceeding, and not expectable in respect of industrial administrations beyond the necessities of their own internal stability.

IX

The idea of a rational administration, in its relation to the "competitive war" and to the monopoly "problem," may be otherwise illustrated. Liefmann, a great defender of rationalisation by Cartels, states that "a Cartel without monopolist purpose is nothing at all." It is to him a matter of definition that some common administration is to be possible. This is the reaction which he describes from the overdone system of individualism, in which the consumer was *tertius gaudens* at a concealed social cost. But it will be remembered that Cournot derived the competitive position from that of monopoly, by multiplying the monopolists. Historically, as well as analytically, it is conceivable that we might have worked downwards from monopolies, instead of upwards from competition, in order to obtain the position now called rational administration. We might equally explain the facts on the ground that the monopoly motive is fundamental, and that it expresses itself wherever or so far as competition does not impede it; or on the ground that competition is fundamental, and always tends to break down or circumvent monopolist tendencies. From the former point of view, the more competition is unrestricted the less is the influence of *organisation ;* working down from monopoly, as a unified organisation, competition appears as the limiting case, when all the parts fly apart and act independently. The latter standpoint gives monopoly as the limiting case, and therefore *monopolistic tendency* as a description of less complete organisation. The conditions now sought for under the name of rational control are between these limits of pre-assumption, and may therefore be regarded as a departure from whichever end of the scale is pre-assumed as "natural," in the direction of the other "extreme." Those whose ideal is the completest regulation of an industry as a whole regard, therefore, the looser structure of the Cartel as not so completely rational as the Trust, as a lower *organisation ;* while the still persistent preference for competitive conditions regards the Trust as monopoly and the Cartel as monopolist tendency. Comparing the method of Cournot with that of Ricardo, the "letting down" of organisation with the

"building up" of monopoly, the idea of "dissolution" with that of "restriction," we see "rationalisation" as the endeavour to find the range between these limiting concepts of purposive leadership or industrial administration. Otherwise stated, there are restrictions on organisation as well as on production. Dismissal of the rationalising argument on the ground that it is "another word for restriction" means that we are arguing under one of the pre-assumptions that which has historically had precedence since Adam Smith. The farther from Scylla, the nearer to Charybdis, and *vice versa*. The middle way is open to both dangers, and to the fears of those who have become specialists in rock or whirlpool navigation.

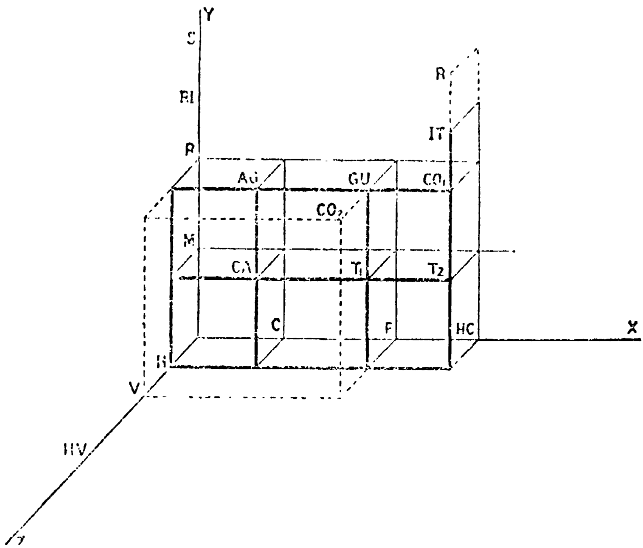
X

Reference may be made here to two recent contributions to the problem of extension of control, which in different ways place it in relation to the pre-assumption of independent competitive working.

It has been shown by Dr. Thorp [1] that there is a great variety in methods of industrial grouping, and that the "power combines" indicate only the last stages of measures taken in a smaller degree to strengthen independent positions. He shows that most businesses are operated by a single establishment, only 7·4 per cent. of all establishments being in "groups," though this means a very much larger proportion of the output. Besides those groups which he calls uniform, in which the grouped establishments are of the same kind, and are "horizontal," and the vertical groups to which reference has been made above, he finds that producers defend themselves, on a small scale as well as on a large, by other forms of extension of control. There is grouping of convergent processes, when the same business makes complementary or auxiliary products—what may be called "lateral integration"—so avoiding the risk that one product may be affected on the market by misfit to products used in connection with it; *e.g.* bedsteads and mattresses may be grouped for production. And there is divergent grouping when different products are made under one direction, because of a fundamental common material or process; *e.g.* because of common process, wire and hempen ropes are sometimes produced together. These four types of grouping show themselves in most cases on a small scale, and are the origins of what, in the largest cases, is called

[1] *The Integration of Industrial Operation* (Washington, 1924).

the "rationalisation" movement. In over 60 per cent. of all the groups examined there were not more than two establishments; in 4·5 per cent. of groups there were more than ten. The "span" of these groups—the extreme distance between their establishments in the same country—may also be an indication of the *Machtfrage* involved; it was over five hundred miles in 17 per cent. of all the groups. Thus the desire for extended control arises out of small cases, as a "rational" device on various grounds, though its theory and title have been examined only in its largest extensions.[1]



An attempt has been made by Dr. Saitzew, of Zurich, to place the "rational" development in a true perspective as regards both motive and structure, in a recent paper.[2] He uses the method of co-ordinates, placing along three axes points defining differences of *motive*, *instrument*, and *direction*, of grouping. Thus the motive may be pure monopoly, or rational control, or avoidance of risk, or secret influence; the instrument may be contract, fusion or holding company; the direction may be vertical, horizontal or a mixture of these. It is thus possible to place

[1] V. *Operating Combinations in Canadian Industry*, by V. W. Bladen, in the *American Economic Review* for September 1927, for an amplification of Dr. Thorp's monograph.
[2] *Horizontal und Vertikal im Wandel der letzten Jahrzehnte* (Jena, 1927).

in relation to each other the chief types of structure, and to classify on lines different from those of Dr. Thorp. Part of this classification is shown in the diagram, the instruments of Contract, Fusion and Holdings being placed on the X-axis; the directions Horizontal or Vertical on the Z-axis; and the motives, Monopoly, Rationalisation, Avoidance of Risk, Secrecy and so forth. on the Y-axis. On the monopoly level of motive there are Trusts (T_1 and T_2) and Cartels (CA); on that of rationalisation there are the "organised association" (Arbeitsgemeinschaft, AG), the "great undertaking" (GU), and one type of Concern (CO_1). It is an exercise in ingenuity to fill in other types. The combination HC, H, RI gives the Investment Trust (IT); the secrecy motive S yields one of the "Kings of rats" (R). There are various other forms of Concern. Dr. Saitzew has by this means done something to rationalise the argument itself. His method indicates the range of organisations, which is neither all "monopolist" nor all "rational."

XI

In the policy of rational industrial administration, as it is usually presented, restriction is involved, on the ground of the attempt to adapt production to a proper rate, to overcome duplication, overlap or speculation, and to give control through leadership. There are some important cases where this policy is carried out under public auspices, and these involve an admission of necessary organised action, to which private enterprise on similar lines may appeal for a general sanction. Instances are the Brazilian plan for the valorisation of coffee, that is, the adjustment of sales under the instrumental use of prices; the British rubber scheme; the Greek "Retention" in the currant trade; and the German control of potash. The last two of these may be specially noticed, as important cases of the refusal to let competition work itself out, but with some difference in the fundamental conditions.

The Greek Retention arose out of the fact that the currant crop is of vital importance in the export trade, and is grown by small producers. When the French vineyards were ravaged by the phylloxera after 1879, Greece supplied the deficiency, so that the currant was described as the "saviour" of the wine industry. There was a great extension of plantation in Greece, the peasants being advanced loans by the State, and great prosperity till

about 1890. Then France, having repaired her vineyards, killed the trade with heavy duties. There was so little elasticity in the "pudding" demand of England, that prices fell ruinously and did not cover freights. The peasants were faced with ruin, and the Government with revolution in the Morea. It was therefore decreed that a percentage of the crop was not to be exported but retained at home, and this percentage had risen to 35 before the war (now 52). At first the Government, afterwards a Privileged Company, received this "Retention," to be disposed of at home by finding some new use for it, as currants were not consumed in Greece itself. The complicated arrangements would require a long statement, but they amounted to "home dumping" on industries which extracted alcohol, or on the Greek wine trade, at prices far below the export prices. Heavy taxes were laid on new plantations, and funds were raised by the Company to compensate cultivators of plantations given up. All this was done against the opposition of those who contended that the whole idea was wrong, and that natural laws should work themselves out. The Privileged Company, getting 35 per cent. of the crop for nothing, was so successful that it was bought up in 1924, and the problem is still unsettled. But it shows the following features. The *control* was considered specially necessary because the units of enterprise were individual peasants faced with ruin. The *organisation* yielded, for a long time at least, a solution, because organised effort was able to create conditions which would not otherwise have been possible. The *new competitor was restrained* by taxes, and the *elimination of surplus production* was obtained by financial measures of compensation. The last three of these belong to the claim of private enterprise for rational solution of the problem of production.

The significance of the Potash Cartel is different in so far as the members were not individuals faced with ruin by competition, but companies. But it shows, under Government sanction, the working of the ideas of rationalisation in a very marked way. There had been a Cartel since 1879, but investment in this industry increased very rapidly, perhaps because of the Cartel, but also because of the agricultural demand. A great speculative period, the "Kali fever," broke out in 1898, the Prussian fiscus itself bought (according to Liefmann) an important works in 1906 for fifteen times the paid-up capital, and under such conditions there was immense over-capitalisation and excessive investment.

In this, as in the Greek case, many persons advanced the view that the natural economic solution would in the end be the best; and in 1910 the larger producers, suffering from reduced quotas in the Cartel and consequent high prices, broke away and sold ahead to America at half the current prices. The Government considered the position dangerous to German agricultural interests. In 1910 a law was passed under which total production, quotas, exports, exchange of quotas, and prices were regulated. This law did not establish a compulsory syndicate or create a monopoly, but in effect it made adherence to the Cartel necessary. The important rationalising feature was that new competition could not arise except on disadvantageous terms, the output of such works being by the law subject to special limitation for a number of years. In 1919, as the result of war conditions, the number of producers had increased to 200 (having been 68 in 1910); and the prospects were so serious that compulsion was applied by a new law of 1919. All producers were now compelled to join the Syndicate, which became the executive organ of the Federal Potash Council, with which, and its organs, final supervision lay as to prices and policy.

The special application of rationalisation under these auspices is in respect of closing down, and of the growth within the Cartel of the largest interests. Closing down could take place voluntarily or compulsorily. It was decreed in 1921 that owners who declared by a date in 1923 (later extended to 1925) their willingness to close down and keep closed till 1953, were to retain their quotas; that is, they would receive their proportion of profits exactly as if they had delivered their supplies. Compulsory closing down is based on "proved permanent uneconomical working," the compensation being similar, but on reduced quotas. At the end of 1925, out of 224 shafts in existence, 118 had been definitely closed till 1953; 71 were at work, and 35 held in reserve. The shafts closed down represented 441 of the 1,000 quotas of the Syndicate. Within the Syndicate, combination by exchangeable quotas, a main method of rationalisation under Cartels, has given a dominating position to two large groups.

It is unnecessary to comment further than to say that to carry on prices 44 per cent. of idle capacity is a proposition only possible because of Germany's virtual monopoly of this product. The case against "Ricardian rationalisation" was not a strong one. But it will be seen that a sanction is provided by such strong instances as these for the proceedings which

define as rationalisation the inclusion in a new private enterprise of the whole fringe of excess capacity, *plus* the endeavour to counteract this diseconomy by the further rationalisation of grouped interests under strong leadership.

XII

It was pointed out earlier in this paper that the whole question was thrust on public notice by the recent argument on the international extension of grouped control, bringing strongly into prominence the influence of industrial leaders in their own countries. They had obtained a leadership which enabled them to speak for their own nations in these arrangements. This authority, derived also from the impressive magnitude of the international plans, imposed on public opinion nearly everywhere an attitude of assent, so that in a sense these leaders " got away with it " in their claims for rationalisation by Big Business. But whatever may be thought of the system of grouping and leadership on a national basis would not necessarily apply internationally. A community may accept the evolution of competition into a type of industrial administration, relying always on the foreign market for limitation of monopolistic policy. When this guarantee is endangered, it may go back on its assent to national combination *under purely private leadership*.

For example, it is a usual form of international agreement to " respect home markets," and this in effect creates prohibitions on trade which are greater than the considered fiscal policy of the country was prepared to allow. It is argued that tariffs thus become " superfluous," a designing expression which can scarcely have deceived the distinguished writers who have used it. The suggestion to rationalise international production by giving to private interests a treaty power overriding that of the Governments concerned, compels us to consider in what form such international relations are compatible with any system of domestic combination.

There is, of course, a wide extension of what may be called " direct international capitalism," through the creation of foreign branches and shareholdings. These do not create the problem just referred to, which only arises out of *agreements* to restrict output or markets, and so endangers locally the conditions of the consumer.

A distinction may be introduced here between two types of agreement with the aim of rationalisation. There are those

which are called "agreements for conditions," and those which are more directly restrictive of volume of output and sale. Examples of the former are given by agreements on length of credits, or for standardisation of types, or against rebates on price. But perhaps the most notable instance is that rationalisation of the conditions of competition which is known in the United States as a "trade practice submittal." If there is any practice which may be considered unfair—as in the case where various wares were marked "Sheffield steel" though produced anywhere—the firms in the industry may be called together to a voluntary conference by the Federal Trade Commission, and an expression of opinion obtained, which practically establishes a law-merchant for the industry. This is an agreement on conditions of trading, with no other limitation on competition, and there may be scope for international agreements of this nature to which no exception could be taken. Thus an agreement against dumping might be negotiated, to overcome the "falsification of the market" and the instabilities which dumping creates; or an agreement for the exchange of patents, or for the organisation of trade information.

It would seem that acceptance of the claims of combines to rationalise within national limits would be easier if on the international level intercombine agreements were of this type of "Cartels of Conditions." Otherwise, instead of international agreements leading *a fortiori* to the justification of national combines, they are likely to diminish the consent to, or increase the legal supervision over, them. The chief instability of the present position lies not in the formation of international agreements of the recent type, for these have existed for over twenty-five years, but in the realisation in the last few years of possible undemocratic extensions of industrial authority and leadership.

XIII

So far, the ideas of rationalisation and leadership in industry have taken account only of relations between producers, as the heads of organised units of enterprise. But the membership of an industry includes the great body of workers who are subject to this leadership, and it remains to show the bearings of the argument for "rationalisation" upon them.

As a defence of the Cartel system in this respect, it has been argued by Liefmann that the dangers of "instrumental" price policy to the position of wage-earners as consumers are con-

tinually being lessened by the growing participation of labour in prices, through its own combination. It has an increasing producers' interest. Or otherwise, the same argument has been put by one great industrial leader, who states that there is practically no pure consumers' interest except that of the *rentiers*, and these are not to be too seriously considered against plans for a more rational organisation of industry. It is, however, too summary to dismiss the labour question involved in this way. Even if we consider labour under the broad general name of producers, it is obvious that there is a degree of restriction which will affect them all without compensation, there being fewer goods for the whole wage-bill to buy. And if we allow for the diversity of kinds of producers, it is also evident that Group A may penalise Group B, and *vice versa*, and that it will be difficult to follow the incidence of various group restrictions, though easy to show that there may be a great spread of injurious reaction. The post-war wage position in this country is largely due to such reactions between groups. A general defence in these terms of the restrictive aspect of rationalisation policy is open to Yves-Guyot's pertinent question—"*Qui restreindra la restriction?*" Against the debit of producers' restriction it is not a set-off to credit labour combination, since the right way of distributing the product, and the right rate of production, are independent questions. So far as rationalisation implies restriction, it has to commend itself to the working-class community for reasons against which existing rights of bargaining are not offset or debited.

The aspect of rationalisation in which labour is interested *as a further advance* is that of control. By this is meant the sharing of administrative industrial control by labour as such. There are various methods by which shareholding may be extended to employees, but in the cases where such holdings give a share in administrative control they imply that the labour qualification is not itself adequate, and that employees must qualify as capitalists. Copartnership schemes have their own place in schemes of industrial progress; but the question is different, how far on the basis of work alone it is rational to distribute shares in control.

The existence of organised wage-bargaining is not a solution of this question, because it relates mainly to the terms on which labour is sold or delivered. The terms of delivery—that is, the conditions of work—are pushed up to a margin called by Mr. Goodrich the "frontier of control"; but this, while it compels

the management to make some internal arrangements concerning employment, is at its utmost rather to be compared with terms of sale and delivery of products between their consumer and producers, the sellers not thereby entering into the buyers' administration of their own concerns. This has nowhere been more clearly put than in the first clause of the Engineers' Agreement, which stated that "the employers shall not interfere with the proper functions of the Trade Unions, and the Trade Unions shall not interfere with the employers in the management of their business." This was called the "General Principles of Employment." It implied two administrations, related as buyer and seller of a service.

The difficulty of overcoming this dualism within the individual business is that of obtaining any equation between units of labour and capital. The idea of a franchise implies a basis of qualification, and in this case a rule for equating a certain amount of labour of a certain grade to a certain holding of capital. This is the point taken by the exponents of the New Zealand Companies Empowering Act of 1924. By that Act it is possible to issue "Labour shares," entitling the holders to full voting powers, but Companies have themselves to decide what is the right distribution of these shares in relation to those of the holders of capital. It is very difficult to see a basis of general application.[1]

It should be pointed out, however, that the idea of control by some kind of industrial franchise is one carried over from politics to industry, and that industry is not alone in not having hitherto applied it. Such other fields of administration as the Army and the historic Churches do not proceed on this method either. The conditions are not regarded as being such as to place these spheres *in pari materia* with politics as to their fundamental principles of control. Many criticisms of industrial structure in this respect come from sources where authority is a much more marked feature of administration than it is in industry.

Difficulties of this kind arise mainly when the question is of a share in the control of individual businesses. A solution within that sphere may be found in time along the path first broken by the New Zealand Act. Meanwhile, however, the process of industrial grouping for the purposes of technical rationalisation does itself tend to make possible a degree of

[1] I have been able to obtain information of only one case of the application of this Act.

rationalisation as labour understands it. For it creates units of enterprise which are on the same scale as labour organisation, that is, which extend over a large part of an industry. Trade Unions have been suspicious of attachments of labour to capitalist government within individual businesses, but these objections, it may be suggested, would not be so serious against the representation of organised labour on the government of great combines. The fact that scale of working corresponded to size of organisation on both hands, besides removing the labour objections to sectionalism, might also shift the problem of qualification from an individual to a mass basis, the participation in control being that of representatives, and settled on some broader view of rights of government. It is a feature of the most organised syndicates in Germany that this participation in the general control has been obtained for labour representatives. The horizontal combines, rather than the Concerns, are obviously the most favourable sphere in which to proceed for this purpose. It is to be admitted that the problem of qualification, while simplified, is not solved. For purposes of bargaining the rule is equal representation, whatever the relative importance of the parties. For purposes of government, in this field, relative importance must count. Great combines render a solution more possible, and also more urgent. Some great fundamental industry, combined either voluntarily or, as in Germany, by law, might develop a solution by the method of trial and amendment.

Finally, rationalisation by industrial grouping and leadership may enable a further step to be taken in respect of industrial peace. Our present resources for this purpose, on a voluntary basis, are very complete; but if there is a gap, it is in respect of a method of assuring continuance of work while negotiations proceed. The coal subsidy was of this nature on an unusual scale. In respect of wage disputes in fundamental industries, it seems to be a possible addition to our methods that, when negotiations have narrowed the issue to its smallest difference, and there is yet no agreement, the disaster of stoppage might be averted if the Trade Union could be enabled, pending an arbitration, to advance to its members the whole or a part of the difference in question, subject to guarantee of being refunded as much of its claim as the award sustained. This might be called the method of "continuation pay." It would always be less than strike pay, since the latter is about two-fifths of wages, while the difference in dispute would not often be as much as half of that. The Union would therefore suffer less even if the

award went entirely against it. There is some approximation to this method in the occasional practice of ante-dating awards, but the community is not thereby cleared from the loss of a stoppage. If a step of a new kind can be taken, it is by way of making "continuation pay" a practicable thing. Now the higher organisation of industry does contribute to its practicability, since it enables a more complete guarantee to be offered from the side of employers. It may therefore contribute to a "rationalisation" in industrial relationships which would be of great benefit to the community, the more so if some working solution of representative control had been also applied. On this note these considerations of the bearings of the new tendency may be concluded.

D. H. MACGREGOR

THE BRITISH BALANCE OF TRADE, 1925-27

GREAT BRITAIN'S visible import surplus (*i.e.* excess of total imports of goods and bullion over total exports) has been increasing steadily for five years. It was £150,000,000 greater in 1924 than in 1922, and it looks like being £85,000,000 greater in 1927 than in 1924. Meanwhile the volume of new foreign issues on the London market has not shown a corresponding decline. Whilst formerly our apparent surplus for net additional foreign investment generally exceeded (taking one year with another) the volume of new foreign issues, since 1924 the reverse has been the case. As the accounts must necessarily balance somehow, it would be a matter of much interest to know in which of the undisclosed items the balancing changes have occurred. In particular, has Great Britain been diminishing the (net) balance of short-period indebtedness due to her from foreign countries?

The relevant figures, based on those published by the Board of Trade except as indicated in the footnotes, are as follows:—

	£ (millions).					
	1922.	1923.	1924.	1925.	1926.	1927.[2]
Net Non-Merchandise Surplus .	375 [1]	375 [1]	410	438	465	465
Net Merchandise Deficiency (*i.e.* Excess of imports of goods and bullion over exports) . .	171	203	324	384	477	410
Net Surplus on Income Account .	204	172	86	54	−12	55
New foreign issues of capital in London	136	136	135	88	111	116
Assumed increase (+) or decrease (−) of other capital items required to balance the account .	+68	+36	−49	−34	−123	−61
Bank of France repayments to Bank of England . . .	5 [3]	5 [3]	5	6	7	37

It used to be believed—probably with good reason—that the

[1] Board of Trade old estimates for 1922 and 1923 revised (1922 +50, 1923 +70) to match their revision of their old estimates for 1924, 1925 and 1926.

[2] Excess of merchandise imports and new foreign issues estimated on basis of figures for first ten months; and non-merchandise surplus assumed to be the same as in 1926.

[3] Estimated.

Board of Trade's estimate of the Net Non-Merchandise (or Invisible) Surplus was much too low. It still rests on a precarious basis of guesswork, and the Board of Trade does not yet attempt to collect definite facts on the lines followed by the United States Department of Commerce. Nevertheless there have been two substantial revisions upwards since the end of the war, and I know of no reason for thinking that it is now more likely to err in one direction than in the other. The most substantial source of error in any given year is to be found in the amount of the profits (or losses) made by British merchants, importers and speculators in dealing in raw materials, which, on account of the frequent occurrence of wide price-fluctuations, they may have, in fact, bought at different price-levels from those appearing in the trade-returns, or which have not been shipped to this country at all. For example, fluctuations in the cost of raw rubber alone are quite capable of affecting the international financial position of Great Britain by as much as £25,000,000 or even more between one year and another.[1] How far the Board of Trade attempts to deal with these fluctuations I do not know. But it must be difficult for them to do more than make a rough allowance for the larger and more notorious items.

At any rate, since the Board of Trade have now raised their figures so greatly (their revised estimate for 1926 being £140,000,000 greater than their old estimate for 1922), and since the big fluctuating item of rubber has contributed a much lower figure in 1926 and 1927 than in 1925, it is unlikely that the true surplus for the last two years, 1926 and 1927, available for (net) foreign investment has been much greater than the apparent surplus of about £42,000,000. During these two years, however, public issues in London on foreign account have amounted to more than £220,000,000,[2] or (say) £180,000,000 after deducting the repayments made by the Bank of France. The question as to how this difference has been financed is the main subject of this inquiry.

In the first place, the proceeds of new foreign issues are a very imperfect guide to the net total volume of our investment

[1] In 1924 the average price of rubber was 1*s*. 2*d*. per lb., in 1925 2*s*. 11*d*., in 1926 1*s*. 11¾*d*. and in 1927 about 1*s*. 6*d*. Assuming that British shareholders and merchants are interested in 250,000 tons of rubber per annum in excess of British consumption, then our rubber profits were (say) £45,000,000 greater in 1925 than in 1924, £25,000,000 less in 1926 than in 1925, and £12,500,000 less in 1927 than in 1926.

[2] These figures, which are based on the totals published by the Midland Bank, exclude, so far as possible, new loans to repay old ones.

in long-dated foreign securities. There are, first of all, the Sinking Funds for the repayment of previous foreign loans. It would not be difficult to make a fairly accurate estimate as to the annual amount of such repayments; but I am not aware that any reasoned estimate of these payments—so backward are all our financial statistics—has ever been made. My own guess, however, as to the Sinking Fund and other annual debt redemption payments (*i.e.* exclusive of loans paid off at maturity) would be small—less than £10,000,000 per annum. Apart from such repayments the London Stock Exchange is an international market where many securities are quoted which shift in large amounts from one country to another. Great Britain has long been accustomed —though not now on so large a scale as before the war—to invest substantially in the United States. There are certain securities which pass freely between London, Paris, Amsterdam, Berlin and Vienna. Various parts of the Empire buy back, as they grow richer, their own securities which have been financed by British capital in their early days. And—as a feature chiefly characteristic of the last two or three years—we have been buying domestic continental securities especially in Germany, and Americans have been beginning to buy a few domestic British securities (though the burdens of double income tax continue to impede greatly this class of transaction).

The gross volume of these transactions backwards and forwards must be very large. It is, therefore, possible that the net balance one way or the other might also be large. Indeed, it is probable that our normal pre-war foreign investment was a good deal larger than the new foreign issues in London. Whether or not the reverse is now true, it is hard to say; and it is so difficult to make a reasoned estimate as to the amount of the net balance that an attitude of complete agnosticism on the whole subject might seem attractive.

All the same, I think it is legitimate to draw tentative conclusions as to the order of magnitude of this net balance. The very absence of tangible evidence as to the amount of the various transactions involved suggests, I think, that their net result is not likely to be very large in relation to the big figures appropriate to the present discussion. Moreover, it is certain that there are substantial items on both sides of the account; so that if the net difference is to be large, the gross items must be very large indeed—so large as scarcely to escape general observation and some sort of rough computation.

Let me particularise a little further. On one side of the

account there are the purchases of foreign investments by ourselves otherwise than through the new issue market. Two or three years ago our holdings of American securities stood at a low figure, since we had sold almost the whole of our pre-war holdings during and after the war, whilst the risk of loss arising out of a return of sterling to parity deterred repurchases prior to our return to the gold standard in 1925. There is much evidence, however, that more recently British investors, particularly Insurance Companies and Investment Trusts, have been returning to their old favourites. It is, therefore, probable—indeed almost certain—that we have bought more American securities than we have sold during the last two or three years. This conclusion is corroborated by the figures of the U.S. Department of Commerce, who calculate that in 1926 there was a net movement of American Stocks and Bonds outwards to foreign countries generally amounting to £25,000,000 ($636,000,000 sold and $509,000,000 repurchased); and add expressly that the evidence of their questionnaires shows that "British investors are gradually reverting to their pre-war custom of investing in American securities." In addition to this movement, American new issues of loans to foreign Governments have generally stood at a slightly lower price than similar issues in London, with the result—as it is commonly supposed—that there has been a steady stream of such bonds from New York to London. Moreover, since two or three years ago we had very few of the domestic securities of continental Europe, it is probable that during the period of European reconstruction we have purchased more of such securities than we have sold, especially from Germany. Finally, Paris, which was a buyer of international securities during the flight from the franc, is more likely to have been a seller on balance during the period of recovery.

On the other side of the account there are the sales of securities from ourselves to investors abroad. There is probably a steady stream, nowadays, of sales to the Dominions. But it is quite certain that such sales are not large in any one year. There have been re-sales of their own high-yielding Government securities to continental countries; but for the reason given above such purchases on continental account are more likely to have been made in New York than in London. Finally, there are the sales from London to New York of international securities and also of some domestic British securities. The last-named may be substantial; but owing to income tax and other considerations, such purchases are concentrated on a limited number of securities;

and we should surely have heard more about it than we have, if it had been taking place on the scale of tens of millions per annum or anything approaching this.

On the face of it, therefore, it would seem that the two sides of the account of the sale and purchase of securities to and from foreign countries, other than new issues, are more likely to be nearly balanced than they are to be widely different. I see no reason to think that the one side has exceeded the other during the last three years by £100,000,000 or even by £50,000,000. Even a difference of £20,000,000 would be hard to substantiate. It is indeed just as probable, indeed more probable, that our purchases of securities, other than new issues, from foreigners have exceeded our sales, as that our sales have exceeded our purchases.

I conclude that a *primâ facie* case exists for the view that our net foreign investment during the last three years—apart from the balance of short-period borrowing and lending—may have exceeded our available income surplus by some figure not less than £150,000,000, and perhaps in the neighbourhood of £200,000,000; from which it would follow that we have adjusted the position by diminishing our liquid assets or increasing our short-period obligations by a similar sum. This is after allowing for the Bank of France's repayments to the Bank of England.

Is such a conclusion consistent with the direct evidence as to the international movement of short-period balances? If it is contradicted by such evidence, then the statistical foundations on which we have raised it are not strong enough to justify obstinacy. But if it is not contradicted, then our conclusion may represent about as good an approximation as the character of the data permits.

For the consideration of the movements of short-period balances, the two and a half years since the return to the Gold Standard may be divided into three intervals. Immediately prior to the return to Gold, foreign, and in particular American, balances were believed at the time to be flowing to London in speculative anticipation of the improvement in the exchange. It may be presumed that, after the anticipation was fulfilled, profits were taken and that these balances flowed out again. But at the same time their place was taken by normal and quasi-permanent foreign banking balances which were re-established in London after the restoration of the pre-war gold parity. Having regard to the magnitude of the foreign balances of central and other foreign banks, as to which some figures will be given

below, one might expect this movement by the middle of 1926 to have increased the total foreign balances in London by a large amount as compared with the end of 1924 (when the speculative movement in anticipation of the return to gold had hardly begun), and even by a substantial amount as compared with the middle of 1925. I know of no actual figures to substantiate this. But City opinion, basing itself on general observation of the facts, does not doubt that the return to gold (whatever its other consequences) restored the position of London as a depositary, along with New York, of foreign balances. Over and above this return of quasi-permanent balances, this period also covers the flight from the franc when abnormal private French balances in London were rapidly increasing—the major part of the collapse of the franc having occurred between October 1925 and July 1926.

The second period—say, roughly, from the middle of 1926 to the middle of 1927—was marked by the portentous piling up of foreign balances by the Bank of France and the French Government. These balances are believed to have approached a total of £200,000,000 by the end of this period, and it is said that some £80,000,000 out of this was located in London. We must not attribute the whole of this flow to the period subsequent to the middle of 1926, since to an important extent official purchases of sterling on French account represented the taking over of sterling previously purchased by Frenchmen on private account. But we may fairly attribute the major part of it to the period subsequent to the middle of 1925, since there is no reason to presume the existence in London in the early part of 1925 of large floating balances on French account, whether public or private.

Thus whilst the return of normal foreign bank balances to London overlapped the reflux of balances on account of exchange-speculation, and similarly the growth of official French balances overlapped the reflux of private French balances, nevertheless, if we take the whole period from the beginning of 1925 to the middle of 1927, it is reasonable to assume an increase of at least £100,000,000, and probably more, in foreign balances in London. in addition to the repayment of £50,000,000 by the Bank of France to the Bank of England which has been already allowed for.

We come finally to the period since August 1927, when money rates in London have been established on a basis appreciably higher than corresponding rates in New York as a result of the reduction of the Federal Reserve rates to $3\frac{1}{2}$ per cent. and the

maintenance of the Bank of England rate at 4½ per cent. In comparing British and American money rates it is always a matter of much difficulty to know which to choose as being most truly comparable. In this case, however, different methods of approach yield much the same answer, as is shown below.

The *Federal Reserve Bulletin* for September 1927 chose as its basis of comparison the New York Time Loan Rate (90 days) with the London Bill Rate (90 days). But it will be better to give also the London Time Loan Rate and the New York Call Loan (Renewal) Rate :—

	Deposit Rate (90 days).		Three-months Bill Rate, London.[3]	Call Loan Rate, New York.[4]
	London.[1]	New York.[2]		
July 1926 . .	4·75	4·37	4·31	4·27
August . . .	4·75	4·75	4·36	4·52
September . .	4·75	4·94	4·53	5·02
October . . .	4·75	5	4·69	4·75
November . .	4·75	4·75	4·74	4·56
December . .	4·75	4·68	4·47	5·16
January 1927 .	4·75	4·50	4·23	4·32
February . . .	4·75	4·44	4·14	4·03
March . . .	4·75	4·44	4·33	4·13
April	4·66	4·44	4·23	4·18
May	4·50	4·37	3·62	4·26
June . . .	4·50	4·50	4·35	4·33
July	4·50	4·37	4·34	4·05
August . . .	4·75	4·12	4·34	3·68
September . .	4·75	4·12	4·32	3·80

This table is, I think, conclusive as to the movement of relative rates in the two centres. In the autumn of 1926 it was possible to use a free balance with slightly more profit in New York than in London. In the spring of 1927 London was, on the whole, offering a little more than New York—up to ¼ per cent. higher. In June 1927 rates were as nearly as possible level in the two centres. Since August 1927 London has been ½ per cent. higher than New York. This is a very substantial difference as these things go—particularly in the autumn, when New York rates are almost always higher than London rates. It is evident, therefore, that international balances, in so far as they are influenced by interest rates, must have had a preference for New York in the last half of 1926, a slight preference for London

[1] Supplied by a bank.

[2] Time Loan Rates as given by *Federal Reserve Bulletin*.

[3] Mid-monthly three-months Bill Rate as given by *London and Cambridge Economic Service*.

[4] Renewal Rate.

in the first half of 1927, and a substantial preference for London since August 1927.

It is scarcely to be supposed that this shift of relative rates in the autumn of 1927 as compared with the autumn of 1926 can have been without influence on the movement of international balances. But there is a mitigating consideration of which we have not yet taken account. If the rate of exchange between London and New York was absolutely fixed—instead of fluctuating, as in fact it does, between the gold points—there is a large supply of floating resources for which even a small difference in the relative rates of interest would be a determining consideration. In view, however, of the fluctuations which actually occur, a possible difference between the rate of exchange at which funds are remitted and that at which they will be brought back again is a relevant factor. If we take 4·85 and 4·89 as the gold export and import points respectively for sterling (this is not exact, but near enough for the present purpose), this is a difference of about ·82 per cent. Thus when the sterling exchange stands at 4·89, an American bank which remits funds to London runs the risk of having to remit them back again at 4·85 and thus losing ·82 per cent. on the exchange as an offset against any gain in interest. For a long-period investment this hardly counts, but spread over three months it is very large. These figures, however, represent the extreme measure of the exchange deterrent as against the interest incentive. When sterling is at 4·85 there is no exchange deterrent; if the remitter anticipates satisfactory interest rates in London for some time to come and is, therefore, prepared to spread any exchange loss over a longish period, the deterrent is much diminished; and in any case the true measure of the deterrent is not its possible maximum but its mathematical expectation (*i.e.* the amounts of possible exchange losses multiplied by their probabilities). Moreover, it is generally possible to insure against exchange loss by means of a forward exchange transaction for less than the possible maximum of loss.[1]

The fact remains that as sterling creeps up above 4·85, high interest rates in London become less and less effective in drawing short-period investments from abroad. It is evident that with exchange at 4·85 a difference of ½ per cent. in interest rates in favour of London might be extremely powerful in drawing funds. If short money would not flow in these conditions, it would indicate either that our power of maintaining the gold standard was

[1] I have gone into the details of this in *A Tract on Monetary Reform*, chap. III.

distrusted or that we had borrowed already a large proportion of the world's floating funds. Thus funds will flow in the first instance on a scale adequate to cancel out any adverse international balance on other scores, and, when this has been accomplished, their continued movement shifts the exchange upwards. As the exchange rises the remittance of funds becomes less and less attractive until a position of equilibrium is reached where the incentive of dear money is no longer strong enough to draw any additional funds in face of the deterrent of possible exchange loss. It is impossible to say *à priori* just where this point of equilibrium will be found, because the exchange deterrent is of varying significance and importance to different classes of lenders and borrowers; but during the last two months experience seems to indicate that it lies somewhere in the neighbourhood of 4·87. The present indications are that the existing difference of interest rates is exceedingly effective in maintaining the exchange above 4·85, but that it would need a greater disparity, or a greater confidence in the duration of the present disparity, to drag it up to 4·89. As funds flow under the attraction of dear money, the exchange rises; as the exchange rises the cost of insurance by means of a forward exchange transaction (*i.e.* what is called the "swap rate") increases; and, according to recent experience, this continues until for a three-months transaction the "swap rate" about balances the gain in interest. When this point has been reached a further improvement in the exchange is dependent on the inflow of "unhedged" funds, *i.e.* short-period investments which for one reason or another are prepared to ignore the risk of exchange fluctuations.

We have stated the argument in terms of the dollar exchange; but corresponding calculations, each with its appropriate critical point, also apply to the movement of funds between London and the chief continental financial centres.

The argument so far makes it probable that funds have moved under the influence of dear money sufficiently to liquidate any debit balance; but we have no clue as to the magnitude of such movement. The movements must have occurred in three ways:—

(i) by causing trade bills to be carried in New York instead of in London;
(ii) by causing London banks to borrow in New York or American banks to lend in London;
(iii) by attracting (non-American) international floating balances to London.

As to each of these we have a certain amount of indirect evidence.

That trade bills have been held back this year is the prevailing impression in the City. *The Times* wrote on October 24, 1927 :—

"American banks, instead of sending sterling cotton and grain bills to London for discount immediately they are ready, have lately shown a tendency to keep them as investments, and to remit them for collection at maturity. It is calculated that the British banks hold at the present moment not much more than one-half the amount of American grain and cotton bills which they had in their portfolios two years ago. The American banks have been induced to do this by the higher rate of discount which prevails in London."

The slack movement of raw cotton to Liverpool is partly responsible. But the effect of relative interest rates is confirmed from America by an interesting passage in the *Boston Evening Transcript* (quoted by *The Manchester Guardian*, Oct. 1927) :—

"The comparatively low interest rates prevailing here [United States] have led British banks to make extensive short-term loans at American banks, by means of which the London banks have prepared themselves to take care of cotton and other acceptances made by their customers, the British manufacturers, as these come along. That is to say, such purchases are, for the moment, being financed wholly in dollars, and the reckoning in pounds has been set over for 60 or 90 days.

"What bankers know is that the names of British banks have been behind important borrowings at short-term here. Why on earth would the British banks have opened these dollar-credits if it was not for the financing of autumn purchases? The conclusion seems inescapable. Moreover, it was given direct official sanction on Tuesday by a prediction in the Federal Reserve Bulletin that 'the decline in rates charged on bankers' acceptances in New York' would have precisely this 'tendency to attract a larger volume of the financing of exports to the banks of this country.'"

As to lending by American banks in London, it is difficult, or impossible, to obtain quantitative estimates. That it does occur and sometimes on a substantial scale, is certain. But it is doubtful whether such transactions are very large, because it is precisely this type of transaction which would be most deterred by the level of the "swap rate."

As regards international floating balances the impression is, I think, that these have been increasing steadily but not sensationally, and that for various reasons the greater part still repose in New York. The volume of these balances, however, is now so gigantic that the movement of even a small proportion of them amounts to a large absolute figure. This is shown by the remarkable figures collected by the United States Federal Reserve Board and Department of Commerce. According to the former authority [1] :—

[1] Bulletin for June 1927.

"Estimates based on the published balance sheets of about thirty central banks indicate that at the end of March 1927 these banks held substantial amounts of liquid foreign assets, aggregating altogether at least $1,600,000,000. Of this amount about one-half was held by banks required by law to maintain reserves and authorised to include these foreign holdings as part of their required reserves. More than $800,000,000, however, was held as a matter of policy by other foreign banks of issue either having no specified legal reserve requirements, as in the case of the Bank of France, or having no authority to count foreign assets as legal reserves, as in the case of the central banks of the Netherlands and Sweden. . . . Of the total holdings of foreign assets by central banks, a considerable proportion is held in the United States. While there is no way to determine this proportion precisely, there is reason to believe that it is large, and that perhaps as much as $1,000,000,000 of the operating reserves of foreign central banks is in the form of dollar exchange."

This relates to central banks only. The U.S. Department of Commerce, as the result of its revised questionnaire to bankers for 1926, has arrived at the following results as to the grand total of foreign balances and other "unfunded" items :—

Unfunded Items [1] *due from U.S. to Foreigners* [2]

	Dec. 31, 1925.	Dec. 31, 1926.
Deposits (Time and Demand) of foreigners	$1,108,000,000	$1,443,000,000
Loans and Advances from foreigners .	418,000,000	384,000,000
Short-term investments made by U.S. banks for foreigners (including bills and call and time loans placed on their behalf)	288,000,000	419,000,000
	$1,814,000,000	$2,246,000,000

Unfunded Items [1] *due to U.S. from Foreigners* [2]

	Dec. 31, 1925.	Dec. 31, 1926.
Deposits (Time and Demand) with foreigners	$367,000,000	$327,000,000
Loans and Advances to foreigners . .	592,000,000	682,000,000
Short-term investments made for U.S. banks by foreigners	87,000,000	80,000,000
	$1,046,000,000	$1,089,000,000

This table exhibits the remarkable result that at the end of 1926 foreigners held liquid assets in the United States to the value of about £450,000,000, and had increased them by about £80,000,000 during the year. Further, the excess of such assets

[1] The questionnaire totals have been increased by 10 per cent. to cover many smaller banks which did not report.

[2] "Foreigners" is interpreted to include (1) foreign governments, banks, bankers and others resident abroad, and (2) foreign branches of American banks.

over similar assets held by Americans abroad had increased during the year by about £70,000,000.

If we were to include the foreign balances held in London and other international centres we should probably have at the end of 1926 an aggregate of floating international balances of the order of magnitude of £600,000,000. The existence of an aggregate so large compared with the volume of foreign trade and other international items on current, as distinct from capital, account is a very novel thing. Some considerable part of these funds is undoubtedly influenced in its location by relative money rates (taken in conjunction with the actual and prospective rates of exchange). This means that the efficiency of bank rates as an expedient for liquidating international indebtedness by short borrowing (or lending, as the case may be), without exerting a corresponding influence towards the establishment of permanent equilibrium by affecting any of the current items of international income and expenditure, is very powerful indeed, perhaps dangerously so, for a country standing in good credit. It means that it is very easy for such a country to live for a considerable time by, in effect, increasing its overdraft.

At any rate there is nothing improbable in the various factors which have been analysed above having led to a diminution of anything between £150,000,000 and £200,000,000 in Great Britain's (net) international liquid assets (exclusive of the French repayment) over the past two or three years. My conjectural balance sheet is, therefore, as follows :—

Great Britain's International Account, 1925–27

Net Surplus on Income Account	£100,000,000	New foreign issues in London	£300,000,000
Bank of France Repayment	50,000,000	Other long-term investment (net) . .	--
Decrease of liquid International Assets (net)	150,000,000		
	£300,000,000		£300,000,000

Possibly £25,000,000 should be added to the total on both sides of the account; possibly £25,000,000 should be subtracted. It is, however, something of a scandal that it should not be possible to answer these questions for certain within a margin of error of (say) £50,000,000 !

The satisfactory feature of the situation lies in the fact that we appear to have had a surplus of £100,000,000 on income account in respect of these years, which include the strike period. Our problem is, therefore, primarily, not a problem of restriction,

but one of adjustment between our long-term lending and our short-term borrowing. We are comfortably solvent even on the basis of the reduced level of exports of 1925–27. So long, however, as we continue to lend abroad more than our current surplus and to balance the account by attracting foreign funds, there is, obviously, in the situation, a dangerous element of artificiality.

The picture of the international balance-sheet will not be complete without a further glance at the American situation. The U.S. Department of Commerce report on "The Balance of International Payments of the United States in 1926"[1] has disclosed certain facts which will be, I think, very surprising to most European readers. We have, most of us, come to regard the United States as having an almost inexhaustible surplus available for foreign lending, so that the chief problem is to keep her supplied with an adequate crop of foreign bonds suited to the tastes of her investors. It now appears that this is a delusion. America's large foreign investments of the last two or three years have been made—like Great Britain's—by no means entirely out of surplus income, but partly by incurring increased short-period indebtedness. The figures for the years 1924–26 are as follows:—

	1924.	1925.	1926.
Net long-term capital investment abroad	$522,000,000	$432,000,000	$522,000,000
Net surplus on income account .	310,000,000	429,000,000	13,000,000
Excess of long-term investment over surplus income . .	$212,000,000	$3,000,000	$509,000,000

Of the aggregate excess ($724,000,000) over the three years, $514,000,000 has been definitely traced by the questionnaires to a net increase in foreign liquid assets in the United States, the balance representing untraced "errors and omissions."

Thus in these three years America's surplus on income account averaged not more than about £50,000,000, whilst her net long-term foreign investment averaged about £100,000,000. Now the first figure is not quite so high as Great Britain's surplus (apart from the strike year, 1926), whilst her net foreign investment is also slightly less than Great Britain's over the same period. Thus in spite of our diminished exports, our international financial capacity is not yet markedly inferior to that of the United States.

[1] By Ray Hall, with a foreword by Herbert Hoover (Trade Information Bulletin, No. 503).

Moreover, the United States has in recent years been doing just the same thing that we have been doing, namely, investing long out of the proceeds of borrowing short.

In 1926 the American surplus on current account fell so low that, if it had not been for what we paid her in respect of war debts, she would have shown a deficit. This surprising state of affairs is mainly due to the terrific expenditure of American citizens travelling abroad, which is estimated for 1926 at $761,000,000 (say, £150,000,000), inclusive of the expenditure of Americans more or less permanently resident abroad.

I should add, to avoid exaggerated conclusions from the above, that in 1926 America's merchandise export surplus was unusually low. During the first eight months of 1927 her visible trade balance was about £58,000,000 more favourable than in the same period of 1926. Thus the surpluses on income account in 1924 and 1925 are probably more representative of the present position than the surplus in 1926.

However this may be, it is unlikely that the United States can continue to absorb foreign bonds at the present rate, when foreign balances in New York cease, as they must sooner or later, to rise, or begin to decline. A prolonged continuance, therefore, of the present cheap money policy of the Federal Reserve Board may be expected to lead eventually to an export of gold; and the above figures suggest that the United States must be much nearer losing gold than has commonly been supposed. It would seem probable indeed that an outward flow of gold may be both foreseen and desired by the Federal Reserve authorities, who must presumably be alive to the true situation of the international account. In this case the monetary history of next year may largely depend on how public opinion takes it when the gold actually flows. The public has been taught for so long to regard the loss of gold as a sign of weakness that it may alarm them unduly even if the Federal Reserve authorities take measures to neutralise the effect of the loss of gold on the credit situation. If, however, the Federal Reserve Board proves strong and determined enough to go through with it, the reassuring effect on the central banks of Europe should have a marked influence in relaxing credit restrictions throughout the world, raising the international price level and stimulating trade and expansion. Let me add that I am here following through the conclusions of an argument on a limited *terrain*,—there are also other influences of a kind which lie outside the scope of this article which are capable of diverting the course of events.

It will be observed that foreign investment since 1924, both by Great Britain and by the United States, has been peculiar and abnormal in character, inasmuch as it has not translated itself, as it normally does, into a demand either for goods or for gold, but has been hoarded in liquid form in the foreign centre where the borrowing has occurred. I think that we have here a very important clue to the monetary events of recent years. The use of the proceeds of foreign borrowing by European central banks to build up liquid reserves abroad has had a strong deflationary influence. We and the United States have been continually creating purchasing power for foreigners on a very generous scale in relation to our true surpluses, but they have not been using it. It has not translated itself, as it normally would, into a demand for goods and a stimulus to trade. Sooner or later this hoarding process must côme to an end. When it does, a seriously depressing influence on international trade and general economic expansion will have been removed.

The modern age, in which debits or credits between nations are settled by changes in the volumes of liquid balances held in international financial centres, instead of by movements of gold, brings with it a new type of problem for which ready solutions are not yet available. This is partly the fault of economists who have not yet forged sufficiently sharp weapons of analysis—though the task of saying just how their present weapons are deficient and how they could be improved lies beyond the scope of this article. But it is also true, at least in Great Britain, that our statistical apparatus is deplorably deficient. It is absolutely vital to a sound monetary policy that we should be accurately aware of the direction and magnitude of the movements of international balances. At present our authorities are content that the so-called " invisible " items in the international balance-sheet should remain invisible in the literal sense. It is just as though in the old days we had not known within a wide margin of error whether gold was flowing into or out of the country or in what quantities. I do not see why questionnaires issued in London should not produce as useful results as questionnaires issued in New York, or why, when in search of facts of vital national importance, we should continue to grope in barbaric darkness.

J. M. KEYNES

THE COLWYN COMMITTEE, THE INCOME TAX AND THE PRICE LEVEL

§ 1. THE purpose of this note is to examine the validity of some of the arguments with which Sir Josiah Stamp and other members of the Colwyn Committee on National Debt and Taxation belaboured, in the name of "orthodox economic science," the unhappy business men who sought to prove before them that income tax "enters into" the price of goods. It will be suggested that some of these arguments are fallacious, and that others, whether valid or not, involve at the least a radical departure from the teaching of that authority to whom most frequent reference was made—Professor Alfred Marshall.

§ 2. The argument on which the Committee placed most reliance was thus set out by Mr. W. T. Layton in his evidence-in-chief (§ 11, M. 177 [1]). "In theory the income tax should not affect the economic action of any income-tax payer. It is not directly an item in the cost of production. Whether we consider a whole industry or a particular business, production under competition continues up to that point where the last unit of output makes no contribution towards profit, and therefore nothing towards the revenue of the State. This is the unit of production which determines prices, which should therefore be unaffected by a tax on those units which yield some profit. On the same reasoning, the amount of output should remain unchanged." Mr. Layton proceeds to draw attention to certain qualifications of this theory, but explained in his cross-examination that he regarded them as being of very little importance, and "the economic theory" as expounded above as being substantially correct (Q. 2544, M. 186).

It appears, therefore, that in the view of this high authority economic theory teaches that price is determined by the marginal costs of production, those costs including no element of profit, so that profit appears as a surplus above price-determining costs, and is indistinguishable in this respect from economic rent. The same argument is developed at greater length in Professor Seligman's paper on "Income taxes and the price level," reprinted

[1] The references are to the pages of the volume of Appendices (A.) and Minutes of Evidence (M.).

as Appendix No. XII in the volume of appendices to the Committee's report. "Inasmuch," writes Professor Seligman, "as the price is fixed at the cost of producing the most expensive portion of the supply that is actually sold, the difference between the lowest cost and the actual price—that is, the difference between the cost of producing the article and bringing it to market under the most disadvantageous circumstances and that of producing it under more favourable conditions—constitutes *the producers' surplus or profits*.[1] Profits are the result of the industrial process; they represent not cost, but surplus over costs" (A. 120).

Further study, however, reveals, in my opinion, a certain looseness in Professor Seligman's conception both of what constitutes the "costs" of the marginal producer and of the sense in which the profits of the intra-marginal producer constitute a "producer's surplus." "The man at the margin who makes no profits, *or who makes only the minimum profits which correspond to wages of management or recompense for the risk*, pays no tax because he makes no profits or pays *only a negligible tax* upon these minimum profits" (A. 121). It makes surely all the difference in the world whether we are or are not to reckon among the costs of the marginal producer, which *ex hypothesi* determine price, all such profits as may properly be regarded as wages of management or remuneration for risk; yet Professor Seligman leaves us uncertain. If we *are* to include them, it can surely scarcely be argued that even in America the Golden, still less in highly-taxed Britain, the aggregate tax upon all such profits is "negligible."

But Professor Seligman does not appear to adhere firmly to his conception that only those profits (if any) which are made at the margin constitute the necessary reward of risk. For in discussing the remoter effects of taxation (A. 124) he admits that "the continual growth of a country's prosperity depends largely upon the readiness of the able and the venturesome to start new enterprises and to take the risk of the unknown. Where the hazard is great, the profits must be correspondingly great; for in the long run in new and untried fields the profits of some are likely to be counterbalanced by the losses of others. If the Government, however, demands too large a percentage of these anticipated profits, the individual may prefer not to subject himself to the risk and may decide to be content with a smaller, but a surer, return." There is no indication that this argument

[1] Italics, in this and all other quotations, mine.

is intended to apply only to the "minimum" profits (if any) of the marginal man; but if it is not, what exactly is meant by the doctrine that profits in general are "a surplus"?

§ 3. By far the most elaborate and ingenious analysis of the theory of value put before the Committee was that constructed by Mr. W. H. Coates as a setting for his interesting and important statistical evidence. Mr. Coates, unlike the authorities hitherto quoted, attempts to take into account Marshall's doctrines of "normal profits" and of the "representative firm," and it will be convenient, therefore, at this point to refresh our memory of Marshall's teaching.

We are explicitly told (*Principles*, p. 343) that in constructing the normal supply schedule for any commodity we must include in the supply price for any quantity supplied "interest and insurance on all the capital" and "the gross earnings of management (including insurance against loss) by those who undertake the risks, who engineer and superintend the working." This normal supply price is to be conceived as the normal expenses of production (including gross earnings of management), not of a firm of sub-normal efficiency, but of a "representative firm." "On the one hand, we shall not want to select some new producer just struggling into business, who works under many disadvantages, and has to be content for a time with little or no profits, but who is satisfied with the fact that he is establishing a connection and taking the first steps towards building up a successful business; nor, on the other hand, shall we want to take a firm which by exceptionally long-sustained ability and good fortune has got together a vast business, and huge well-ordered workshops that give it a superiority over almost all its rivals. But our representative firm must be one which has had a fairly long life, and fair success, which is managed with normal ability, and which has normal access to the economics, external and internal, which belong to that aggregate volume of production" (*Principles*, p. 317). Again, we learn (p. 362 n.) that "the supplementary costs, which the owner of a factory expects to be able to add to the prime cost of its products, are the source of the quasi-rents which it will yield to him.[1] If they come up to his expectation, then his business so far yields good profits: if they fall much short of it, his business tends to go to the bad." I do not think any warrant can be found in

[1] Contrast Q. 9006 (M. 650). (Professor Hall) There are really three elements: the prime cost, the supplementary cost and the element of profit? (Mr. Coates) Yes.

Marshall's pages either for the view that the costs of production which are relevant to the determination of normal value are those of the most inefficient or unfortunate producers, or for the view that they do not comprise a substantial element of profit. I venture to suggest that Sir Josiah Stamp's attempts (Qq. 4705–19, M. 337–8) to bludgeon Mr. P. D. Leake with the authority of Marshall's name was based on a misunderstanding of the part played by "the marginal principle" in Marshall's theory of value.

§ 4. Mr. Coates, as was to be expected, shows his familiarity with the Marshallian doctrine of normal profits as a constituent element of costs (§ 7, A. 67); but it is not quite easy to determine what relation to this doctrine he conceives his own analysis to hold. There are moments when he seems to accept the validity of the Marshallian theory as an expression of long-run tendencies, and to be concerned merely to point out, like Marshall himself, that the price prevailing at any given moment is influenced by the temporary oscillations of demand and supply. Now if all Mr. Coates means is that in short periods of sub-normal demand prices will be charged which are insufficient to cover profits (or other supplementary costs), that is, of course, entirely consistent with Marshall's teaching. Where he appears to depart from that teaching is (*a*) in ignoring Marshall's emphasis on the strength and persistency of the forces which operate, even in times of sub-normal demand, against cutting prices so far as to "spoil the market," [1] (*b*) in writing as though all short periods were short periods of sub-normal demand. "The conclusion of economic analysis," he writes (A. 68), "is thus that, while the broad trend of price is governed by the lowest or most efficient [2] cost of production, that cost including normal profit and therefore such portion of normal profit as is taken by taxation of income, this stage is rarely reached in the actual conditions of life. In these conditions, the temporary positions of demand and supply are the governing factors, and price is determined by the cost of the marginal products, the sale of which yields no profit, and may indeed yield a loss." Mr. Coates thus appears to conceive of the so-called "normal," not, like Marshall himself and Pigou,[3] as a *mean* around which actual conditions fluctuate,

[1] *Principles*, p. 375. Cf. Pigou, *Industrial Fluctuations*, pp. 167–71 and 281.

[2] In this, I think, Mr. Coates flies to the opposite extreme.

[3] Cf. the diagrammatic treatment in Economics of Welfare, p. 755, where a certain area "represents normal returns to supplementary costs, and is equal to the *average* of producers' surpluses (from a short-period point of view) that result from the various positions assumed by the demand schedule *from time to time*."

but as a *maximum* which they are always striving unsuccessfully to attain.

It is, indeed, hard to resist the suspicion that in question and answer both Mr. Coates himself and other witnesses and committee-men were constantly slipping into arguments relevant only to conditions of sub-normal demand. Thus Sir Josiah Stamp inquires (Q. 5899, M. 435): "If you have a lot of ships and existing capital, would you not rather have something from them than nothing at all?" And Mr. Coates, having committed himself to the contention that even debenture interest does not "enter into" prices, is reduced to arguing (Q. 8989, M. 649): "Your debenture-holders, of course, have a right of recovery against you; but I should imagine, *in a period of very bad trade*, when debenture interest is not paid and the circumstances are explained, they are not likely to say, 'We are going to put in a Receiver at once.'" Mr. Coates is, of course, entitled to think (A. 67) that since "real life is . . . concerned, not with the long-run trend, but with the facts of the moment," "most attention . . . must be given to the short-period relation of demand price and supply price," though no one is entitled, in my view, to attempt to bluff the business man into supposing that Marshall thought so. But since a long period is after all made up of a number of short ones, we are entitled to demand either that Mr. Coates' long-period theory and his short-period theory should be ultimately reconcilable with one another, or that one of them should be definitely repudiated as inaccurate. The long-period theory must not be left, with a perfunctory blessing hanging in the void.

§ 5. Mr. Coates, indeed, seems to be sub-consciously aware of this, for, having patted the theory of normal profits on the back as a long-run tendency, he proceeds to criticise it on grounds which, if valid, would be as fatal to it in this capacity as in any other (§§ 13–16, A. 70–71). It might, he suggests, be true if all producers were equal in ability. But in real life production is in the hands of numerous producers of very varying strength and ability, some of whom are so weak that they are making no profits or even making losses. The goods supplied by these producers form part of the total supply of goods, by the magnitude of which, taken in conjunction with the conditions of demand, price is determined. Therefore (so the argument appears to run) the magnitude of net profits is irrelevant to the determination of that price.

Now it is precisely this type of argument that Marshall's

conception of the "representative firm" was designed, as it seems to me, to forestall. It becomes relevant, therefore, at this point to inquire whether the valuable statistics of the dispersion of profits furnished by Mr. Coates (A. 71–85) are such as to cast discredit on this conception. Mr. Keynes holds (ECONOMIC JOURNAL, June 1927, p. 205) that the magnitude of the dispersion is so considerable as to do the conception "some damage." I venture to think that the shape of the normal curve of error disclosed by Mr. Coates for the normal year 1912–13, and even for the abnormal year 1922–23, would not greatly have surprised Marshall; but nobody can know.[1] In any case Marshall's doctrine clearly contemplates the possibility that some part of the supply is always being turned out at a loss. It is still, therefore, of at least academic interest to inquire what are the implications of the doctrine of the "representative firm" as to the effects of this part of the supply upon price, and as to the mode in which impediments to supply may be expected to affect price and output.

That, as Mr. Coates points out, the output of the least efficient producers forms part of the total output whose magnitude helps to determine price is, of course, evident; but to argue from this that there is some special relation between price and the costs of the least efficient producers is a complete *non sequitur*.[2] Indeed, as Mr. Coates himself points out, the existence of a supply from these producers, so far from raising prices above the costs (however interpreted) of stronger producers, makes it lower than it would be if, other things remaining the same, that supply were wiped out. (Of course, according to Marshall's doctrine, other things would *not* remain the same;

[1] For convenience of reference I append the summarised statement (A. 92). Profit as per cent. of turnover in seven groups of trades, taken together :—

	Median.	Lower quartile.	Upper quartile.	Mean deviation from median.
1912–13 . .	4·61	2·53	7·67	3·59
1922–23 . .	4·11	1·24	8·46	6·01

[2] "Concerns which are on the point of withdrawal from the market have been contributing their supplies to the total offered, and their influence on the supply side has been a factor in the determination of price, for, on the economic argument, this tends to be settled in any given unit of time by the demand which is effective in relation to the total quantity on offer. The addition to supply, which their activities have produced, will, by its enlargement of supply, have tended to depress the price to meet the effective demand. Yet the price influenced by this marginal production of the weak producers will have been insufficient to yield these producers a residuum of profit. Into that price can enter no element of any tax which is levied on profit, for, in the conditions which exist, no tax will be levied on those weak producers whose incremental supply on the market is a factor in the determination of price" (A. 71).

for price having now risen above the costs of representative firms, representative firms would either expand their output or increase in number or both until price was brought down again to equal their costs.) The whole purport of Marshall's doctrine is that the least efficient producers are no more "marginal" than any other producers in the only sense of the word that is relevant to the determination of price. According to that doctrine there will always be some firms which, for what seem to them good and sufficient reasons, are ready to carry on production at a sub-normal profit or even at a loss; and the very fact that they are not covering their full costs (including profit) shows that they are *not* specially "marginal" in the only relevant sense, *i.e.* in the sense that they *must* cover their full costs if equilibrium is to be preserved.

This would be true even if the least efficient firm at work were covering its costs, excluding profit. But the fact that some firms are working at an actual loss, while it raises no additional difficulties on the theory that there is a special relation between price and the costs (including profit) of the representative producer, makes nonsense of the theory that there is a special relation between price and the costs (excluding profit) of the "marginal" producer. For the latter doctrine loses entirely its apparent simplicity of outline when we discover that in fact the "marginal" producer is not a man who is making neither profit nor loss, but a man who is making a loss of an undefined and unpredictable amount.

§ 6. The trouble seems to arise partly from making an illegitimate analytical use of the device, appropriate enough for purposes of statistical demonstration, of ranging the various producers from left to right in ascending order of magnitude of their costs (excluding profits). If the curve so obtained is brought into connection with a demand curve, it is natural to infer that anything which raises the curve throughout its length, so that it cuts the demand curve somewhat further to the left, will leave the output of all but the weakest producers unaffected, and concentrate on the latter the whole curtailment of supply. So soon as this inference is put into words, it is seen to be fallacious. That, for instance, a uniform tax on raw materials should leave the output of the considerable majority of producers in any industry unaffected, is not to be believed.[1] The theory of

[1] Though Mr. Coates, with perfect logic, was driven to adopt such a position with regard to a general increase in salaries (Q. 8887, M. 644) and even in wages (Q. 8900, M. 664).

price as depending on the activities of the "marginal producers" proves a good deal too much!

The fact is, of course, that we have no right thus to bring the weakest producers alone into proximity with the lowest regions of the demand curve. *Unless we are content, like Marshall, with a supply curve derived from the conditions of a representative producer*, the situation can only be treated diagrammatically by setting a partial demand curve against a partial supply curve for each separate cost-group of producers. The assumption of a single competitive price dictates that in the case of supernormal producers the two curves will not intersect, while in the case of sub-normal producers the point of equilibrium will lie to the right of their intersection. The effect of any change in the conditions of supply must be studied separately for each cost-group.

But once it is conceded that we must consider the effects of an impediment to supply on the actions of *all* producers, and not only of those "near the margin," the *a priori* distinction which it is sought to establish between the effects of a tax on raw materials and a tax on profits melts away. In either case, if it can be established statistically that the actions of the majority of producers are not affected, that will be not because of the existence of firms "at the margin," but because for the majority of producers the supply of the taxed factor is, for the period of time under consideration, inelastic. Some of the business men contended that the supply of business enterprise has a certain elasticity even over short periods,[1] and most of the economists were willing to admit that, at any rate for large changes of reward, it might have over long periods. The point at the moment is not whether or no this is true in fact, but whether or no the existence of "marginal concerns" makes it absurd to suppose it to be true. Clearly, in my opinion, it does not.[2]

[1] *E.g.* Q. 7306 (M. 518). "(Lord Colwyn) In making up the price, including the amount of profit, do you include income tax?—(Mr. Tredwen) It works in this way. In many cases I have declined to do business because the reward for doing it would be inadequate."

Professor Macgregor argues (Q. 5887, M. 435) that there can only be such a short-period check to enterprise in the case of producers who are individually strong enough to affect prices by checking their own supply. I see no reason to accept this limitation.

[2] In Mr. Coates' diagram 5 (A. 91) the very point which it is desired to prove, namely, the immobility of the supply-curve SS′, is assumed from the start. Further, this supply curve (in spite of its downward trend) is apparently supposed to represent momentary conditions, and therefore throws little light on the validity of the doctrine of "normal profits."

§ 7. A good deal of the blame for the confusion and misunderstanding which arose must, I think, be laid on the shoulders of the Committee for the barren form in which they posited their question—whether or no income tax "enters into" prices. Several of the business men fell an easy prey, and made extravagant statements which they could not substantiate; but the more thoughtful of them showed that they conceived the rise in prices as indissolubly bound up with a contraction of supply.[1] The economists, habituated to the conception of the mutual determination of economic quantities (Marshall, *Principles*, p. 818), and to the consideration of "the things which are not seen," might have been expected to give the business men a lead in this respect, and to point out that it makes no difference to the equilibrium attained whether the temporal sequence of events is (1) rise of price, (2) contraction of quantity demanded, (3) contraction of quantity supplied, or (1) contraction of quantity supplied, (2) rise of price, (3) contraction of quantity demanded. But instead the Committee preferred to harp on an unfruitful distinction between the "incidence" of a tax and its "effects." Even Professor Pigou, though quick to recognise in cross-examination that the question at issue was largely one of words, allowed himself to follow the Committee's lead in his original answer, and so to give it in a form which appears to presuppose monopoly conditions. "If," he writes (§ 30, M. 4; cf. Q. 617, M. 47), "as may be presumed, people are already charging the prices *that yield them the best profit*, the removal by the State of a proportion of the profit will not tempt them to fix prices

In diagram 4 (A. 89) Mr. Coates attempts to apply the conception of marginal production to individual firms, but as he does not appear to attach much importance to the result as compared with the conception of marginal firms (§ 35), the difficulties involved will not be further pursued here. It may be mentioned, however, that the shape of the curves of "cost as per cent. of price" for individual firms—first descending owing to increasing returns and then ascending because "after [a] point, increased supplies begin to affect demand price"—appears to assume a power of charging differential prices.

The true Marshallian doctrine is admirably expounded by Henderson, *Supply and Demand*, ch. v. § 4. "The marginal concern," he writes (p. 59), "must be conceived as that working under the least advantageous conditions in respect of the assistance it derives from the strictly limited resources of nature, *but under average conditions as regards managerial capacity and human qualities in general*."

[1] Mr. Glenday says (Q. 4867, M. 358): "I have started off with the idea that Income Tax has no direct effect on prices, but I say it has an indirect effect in this way, that it reduces the amount of goods which you sell." See also Qs. 8463–4 (M. 604): (Professor Hall) Should I be right in putting your view into these words: that it reduces your inducement to continue to extend production?—(Sir Hugh Bell) Yes, I think so. (Prof. Hall) And by curtailing production it does tend to reduce supply and to send up prices? Is that, roughly, it?—(Sir Hugh Bell) I think so.

differently." Mr. J. A. Hobson, though twitted by Sir Josiah Stamp with heresy, seems to me on this occasion to have sustained almost alone the unwonted rôle of champion of Marshallian orthodoxy.[1]

It remains to be added that once it is realised that increased prices are indissolubly bound up with contraction of supply, the suggestion of Sir Josiah Stamp (Q. 5882, M. 435), that, if prices really are raised, "the burden on the capitalist has ceased to be a burden because he has passed it on to somebody else," falls to the ground. For, as Professor Seligman admits (A. 122), "even though the producer should be able to add the income tax to the price of his goods and thus increase his profit per unit of output, he would, in all probability, sell so many less units as to diminish his total net profits. The business man, therefore, is quite justified in objecting to high taxes on business profits, even if he thinks he is able to shift them on to the consumer."

§ 8. I pass to some of the subsidiary arguments which were used to support the contention that income tax cannot "enter into" prices. The common weakness of all these arguments for the purpose in hand is that they seem to be equally applicable to local rates or to a general tax on raw materials—imposts which by common consent do form part of the costs of production. The first argument is derived from the quantity theory of money, and points out that unless either the supply of money or its velocity of circulation is increased, the old total quantity of goods cannot be sold at an enhanced price-level. Mr. Hobson allowed himself to be temporarily blinded with this argument by Sir Josiah Stamp (Qq. 1626–38, M. 126–7), but after reflection gave correctly the obvious answer, that "the rise of prices would occur through a shrinkage of supply of goods" (M. 127, note). Professor Seligman, in the paper already alluded to, quotes with approval Ricardo's form of the same argument (A. 123, note). "The income tax, were it fairly imposed, would leave every member of the community in the same relative situation in which it found him. Each man's expenses must be diminished to the amount of his tax; and if the seller would

[1] I have sought in vain in Marshall's work for a direct expression of opinion on the effects of a general income tax. The nearest approach I can find is the following reply to the Questionnaire of the Royal Commission on Land Taxation (1897): "Generally speaking, the incidence of taxes on profits is widely and evenly diffused; they run over rapidly from one part of a trade to another and from one trade to other trades" (*Official Papers*, p. 357). I venture to think that so far as it goes this quotation supports my view of the implication of the Marshallian theory.

wish to relieve himself from the burthen of the tax by raising the price of his commodity, the buyer for the same reason would wish to buy cheaper. These contending interests would so exactly counteract each other, that prices would undergo no alteration." In this form, the doctrine avowedly assumes that all working-class consumers are income-tax payers; and apparently also implicitly assumes that the money collected by the State is not spent but thrown into the sea. It seems to require little further comment.

The second subsidiary argument (used, *e.g.*, by Sir Josiah Stamp, Q. 621, M. 48) is that since the British income tax is progressive, and therefore falls on different producers at different rates, it cannot affect prices, because it would not know, so to speak, to what extent to affect them. Even if we disbelieve in the representative firm, the resources of algebra are equal in Professor Pigou's hands [1] (though not in mine) to analysing the effect upon price of differential taxes upon various sources of supply. One might as well argue that because foreign sugar and Empire sugar are taxed at different rates, no part of the sugar tax falls upon the consumer.

The third subsidiary argument urges that since there is a common price-level throughout the world for goods which enter into international trade, there is a theoretical absurdity about holding that the price of such goods can have been affected by the fact that the income tax is higher in Britain than in other countries. But clearly, if the British supply forms an appreciable part of the world's supply, there is not; and clearly too the argument would be equally valid as applied to local rates. In any case the substantial contention of the business men seems to have been that the high British taxation made it difficult to compete *at world prices*, and so restricted the volume of trade. In answer to this contention, Professor Hall and Mr. Coates seem to have taken up the untenable position that *no* taxation can diminish the volume of foreign trade (Q. 1378, M. 109, Q. 9080, M. 653), though Sir Josiah Stamp (Q. 1379, M. 109) and Professor Macgregor (Q. 5892, M. 435) were too wise to acquiesce.

§ 9. I pass to consider two pieces of direct statistical evidence on which Mr. Coates laid great emphasis in support of his contention that income tax does not in fact (even through the medium of restricted supply and reduced enterprise), affect prices. The first, derived from the same data as the measurement of dispersion of profits (§ 5), is the fact that, while the

[1] *Economics of Welfare*, App. III, B, pp. 745–9.

standard rate of income tax was 4·28 times and the average effective rate (including super-tax) 3·09 times as great in 1922–3 as in 1912–13, the median rate of profit on turnover, in the seven groups of trades considered, was only 4·11 per cent. in 1922–3 as compared with 4·61 per cent. in 1912–13 (A. 92–6, M. 638, § 14). I cannot help feeling, with Sir Alan Anderson, that the impressiveness of this result is very much diminished when we remember the respective positions occupied by the years concerned in the trade cycle. As Sir Alan suggests (Q. 9386, M. 677), " what you have proved is that the net return per unit with a heavy income tax in that very bad year was the same as the net return without the same income tax in a normal good year "—or rather, he might have said, the peak year of the cycle. Everyone will agree with Mr. Coates that there were plenty of other causes besides high income tax for the reduced volume of trade in 1922–3; but we are here thrown back into the region of common-sense and general reasoning. The particular statistical fact established seems to me, for the reason given, to carry little weight.

§ 10. Mr. Coates' second main statistical weapon is as follows. On the basis of figures presented by Mr. A. H. Gibson in the Financial Supplement of the *Spectator*, March 7, 1925, and extending for over 100 years, he finds a very high correlation, + 0·903, between an index-number of wholesale prices and the gross yield of Consols in the succeeding year (A. 101). For the sub-period 1908–24 he finds an equally close correlation, + 0·91, while for the same sub-period the correlation between the price-index and the *net* yield of Consols (*i.e.* after deduction of income tax) in the succeeding year is found to be only + 0·72 (A. 102–3). " The implication is that the income tax is an effective burden on the income, not thrown off through a movement in the yield." The argument, which is not, however, very clearly expressed, seems to be as follows. In fixing the gross money rate of interest which they demand, people are affected by variations in the value of money, and not by variations in the value of money *cum* variations in income tax, since if they were affected by the latter combination, it is the net rate of interest and not the gross which they would seek to keep stable in commodity value.

Now the significance of the high correlation between gross interest and the price-level is, as Mr. Coates himself admits, obscure. For year to year variations, the tendency of demanders and suppliers of capital to alter (though with a lag) the money

rate of interest offered and demanded so as to compensate for the change in the real rate which an expected rise or fall in prices would otherwise produce, plays, no doubt, in accordance with the well-known theorem of Professor Irving Fisher, an important part. So probably do the variations in the intensity of the real demand for capital which occur, more or less synchronously with variations in the price-level, in the successive phases of the trade cycle. But in making a broad comparison between interest-rates in a period of high prices and in a period of low prices, neither of these explanations will serve. In particular, for the purposes of such a comparison, the whole notion of the supply price of capital as depending on the level of commodity prices is invalid. For of course interest, unlike wages, etc., is expressed as a rate per cent. on capital, so that in comparing 1924, say, with 1913, both capital and interest are affected alike by the fall in the value of money. So far as the high correlation between gross interest and the price-level results from the fact that both the rate of interest and the price-level fluctuate about a higher mean level in post-war than in pre-war years, it is quite clearly not significant, since the cause of the raised mean level is unquestionably different in the two cases. The higher mean level of prices is by universal consent mainly due to the increased supplies of money (including bank-credit) in circulation; while, as argued above, the higher mean level of interest rates cannot possibly be due to this cause, either directly or through the mediation of the price-level, but must be due to a relative shortage in the supply of capital as compared with the demand. Once this is realised, the comparative lowness of the correlation between *net* interest and the price-level ceases also to be significant. It is largely a reflection of the fact that the war, which caused an inflation of prices and a shortage of capital, led also to the imposition of a high income tax.

The fact which leaps to the eye from Mr. Coates' tables is that the net rate of interest is now about the same as it was in the years immediately preceding the war, *i.e.* the gross rate has gone up by just about the amount of the increase in income tax. Sir Alan Anderson seems to have been amply justified in pointing out (Qq. 9322–39, M. 674–5) that, if we are to talk statistics at all, the prima facie suggestion of the statistical evidence is that the tax has been added to the supply price of capital. In his reply to this suggestion, Mr. Coates seems to have taken a headlong leap (which Sir Alan was not quick enough to expose) into the fallacy explained above. For he suggested in effect

(Q. 9324–6) that since the net money rate of interest was unchanged, the net real rate had fallen (so that the gross real rate might therefore be substantially unchanged).[1] As already stated, since both capital and interest are expressed in depreciated pounds, this argument is fallacious. There *has* been a real rise in the gross rate of interest, and its prima facie significance is what Sir Alan stated it to be—a relative shortage in the supply of savings. How far this shortage is due to the high income tax and how far to other causes is, of course, another matter: we are here back in the realm of opinion and general reasoning.

§ 11. But Mr. Coates also uses the high correlation of prices with the gross rate of interest in another manner. In Q. 9105 (M. 655) he constructs the following syllogism:

Prices move with gross rate of interest,
Prices do not move with income tax,
∴ income tax does not move with gross rate of interest.

The minor premiss is apparently based on Mr. Coates' own previous general reasonings about the marginal firm, and not on statistics; and since it asserts the very point which it is sought to prove (namely, that income tax does not affect prices even through the medium of the rate of interest), it seems to form rather a weak logical link in the chain of argument. Statistically, it is inconsistent with the very fact on which Mr. Coates lays special stress in his argument summarised in § 10 above—the lower correlation between net interest and prices than between gross interest and prices. If it comes to correlations, it is worth noting that for the period 1908–24 the correlation between the rate of income tax and the price-level is + 0·94 and that between the rate of income tax and the gross rate of interest is + 0·93.[2]

§ 12. In conclusion, I wish to make it plain that it is to the specific arguments which impressed the Committee, and not to their general conclusions, that I demur. While there is no theoretical absurdity in supposing that even over short periods the supply of existing business enterprise may be elastic, so that, in Mr. Tredwen's words, people "decline to do business because

[1] "(Sir Alan) The net reward to the investor in gilt-edged investments has, it so happens, gone up so that he gets as much now as he would before the war.—(Mr. Coates) In terms of money?—(Sir Alan) In terms of money.—(Mr. Coates) Not in terms of commodities?—(Sir Alan) No, not in terms of commodities, but in terms of money. . . .—(Mr. Coates) I think when you turn it into terms of commodities it loses its whole point."

[2] I am indebted to Mr. D. Barber, of Trinity College, for help in seeing through this particular tangle and for working out the correlations.

the reward for doing it would be inadequate," there are strong reasons, based on common observation, for doubting whether this is, in fact, the case to any important extent. A high income tax will only have an *important* effect in reducing output and (monetary conditions remaining unchanged) raising prices if it checks the supply of *new* capital and business ability. But here again the whole history of social legislation and Trade Union activity suggests that even in the long period the elasticity of supply of these factors is far less than used to be supposed by economists, and far less than business men as a class are naturally inclined to suppose even now. Economists are familiar with the notion that the demand and supply schedules of any commodity are not really independent of one another, so that a *permanent* alteration of the demand schedule may lead to a change in the whole schedule of supply. It is quite possible that as a result of a prolonged high level of taxation business men as a class should revise their conceptions of what constitutes a reasonable rate of reward for enterprise, and it is not impossible that, as Mr. Coates argues in an interesting passage of his evidence, something of the kind has already happened.[1] Further, the whole tendency of modern economic reasoning is to lay less stress on the effects of this or that action in stimulating or checking the *motives* for displaying this or that kind of activity, and more stress on its effects in expanding or contracting the *sources* from which that activity emanates. A high income tax, the proceeds of which are devoted partly to debt reduction and partly to measures of public health and education, may well have a beneficial effect on the sources both of savings and business enterprise far outweighing any discouraging effect it may exercise on the incentives to display those activities. Finally, it is now realised that even if it can be definitely proved that a given measure has a perceptible effect on the balance in retarding the rate of accumulation of material wealth, that measure does not necessarily stand condemned. The time has come to substitute reasoned judgments about what proportion of our national income it is proper for us to save for the blind fear of doing anything which may make that proportion less than it would otherwise have been.

[1] Q. 9406, M. 678. "Man's comparison between disutility and utility, effort and reward, is not a constant factor; it is a moving factor, and it is conditioned by the terms and circumstances in which the man lives. . . . One judges things differently according to the circumstances that may exist, and what may be not enough to tempt a man of fifty-five, may to-day tempt a man of twenty-five strongly, and you have got every degree in between."

For these reasons, the general attitude of the Committee and their advisers—that if you throw enough taxation mud at the business man a good deal of it will stick—and their conclusion that the reduction of the present rate of income tax is not a matter of pressing importance, seem to me wholly sound and admirable. That the technical arguments by which they believed themselves to be moved were unsound is not a matter of great importance, except in so far as accurate thinking is a good in itself, and except for the danger that those arguments, reinforced by the authority of great and respected names, may do damage in other connections.

D. H. Robertson

POLITICS AND THE LAND

Politics and the Land. By CECIL DAMPIER WHETHAM, M.A., F.R.S. (Cambridge University Press. 1927. 6*s*.)

IN the gloom of the unfavourable season of 1927, it is encouraging to read Mr. Dampier Whetham's useful contribution to the discussion of the difficult problems which arise out of the present conditions of the farming industry. "Writing and ploughing," said Jethro Tull, "are two different talents," and he suggested that one man could not excel in both. But, as an owner and farmer of land, and as a Fellow and former tutor of a Cambridge College, Mr. Dampier Whetham may be said to combine the two talents to an unusual degree. Well constructed, pleasantly written, clear in statement, his book is marked by an admirable impartiality. In it are analysed the causes and effects of the depression in agriculture; the various remedies that have been proposed are passed in review; and, in certain salient features, the future of rural life in England is forecasted.

The title of the volume should itself suggest a timely warning. Agriculture has already become the centre of fierce political controversy. But it is "Politics" first, and "The Land" afterwards. In this lop-sided country, with its disproportionate development of urban industrialism, that is the necessary order of priority. Unless, on national grounds, the agricultural industry could be withdrawn from party politics, the interests of a handful of food producers will always kick the beam when weighed in the balance against those of the mass of consumers. On this point Mr. Dampier Whetham is under no illusion. He admits that more might perhaps be urged in favour of special aid to agriculture than can be pleaded for other staple industries. But he recognises, and frankly says, that subsidies or protection are, in present circumstances, impracticable.

Nor has Mr. Dampier Whetham any doubt as to the true nature of the disease from which agriculture suffers. The prices obtainable for agricultural produce have fallen below costs of production. But the depression of the farming industry from this cause cannot be detached from that of other industries, or treated as a special episode. In the years 1920–21, in almost all countries, at the same period of time, throughout the whole range of production, a rapid and continuous fall of prices set in.

All commodities were affected by the collapse. In this country during January 1920 the price of agricultural produce generally and of wholesale commodities other than food had stood respectively at 213 and 215 per cent. above the pre-war level; in July and August 1923, both had fallen to their lowest points, namely, 44 and 47 per cent. above the pre-war level. A movement so universal and simultaneous must have had a common cause, and that cause was monetary. The war and its aftermath had reduced the financial system to chaos, and exaggerated all the evils which may result from monetary instability and the break-up of general price-levels. Unconsciously and irresistibly swept into this world-wide movement, the farmers of almost all countries were brought in 1921–23 to the verge of ruin.

In periods of economic upheaval, like that which has been recently experienced, all industries necessarily feel the effect of a rapid fall in prices. But the worst sufferer is the farmer. It is upon him as an individual that the losses fall; they cannot, as in many other enterprises, be distributed among a large body of shareholders. His slow-moving machine is ill adapted to rapid movements of prices. The cropping of arable farms, in any given year, forms part of a plan of campaign which extends over a considerable period of time. The machinery cannot be suddenly reduced to half-speed, closed down, or switched off into other directions. Another disadvantage to which arable farmers are peculiarly exposed is rightly emphasised by Mr. Dampier Whetham. Like Mr. Enfield in *The Agricultural Crisis* 1920–23, he insists on the long interval between the farmer's seed-time and his harvest. His turnover is, in fact, more protracted than that of other staple industries. On an arable farm the main costs of raising winter-sown cereals are incurred from twelve to fourteen months before the produce is marketed. When the general level of prices is rising, farmers make profits. When it is falling, no skill, and none of the ordinary remedies proposed, can save them from making losses. With this protracted turnover, the "economic lag" in costs of production behind the downward tendency of the prices of agricultural produce has worked disastrously. If the lag were purely economic, there would be little ground for complaint; but farmers urge with some truth that social and political reasons have interfered with its course. So far as costs of production consist of wages and railway charges, neither of these items of expenditure has been wholly left to the operation of free contracts and economic laws. On the contrary, both have been assessed by external tribunals at artificial rates.

The effect of this lag in costs of production may be illustrated from the cereal harvests of 1920, 1921 and 1922. The following are the prices of the three corn crops per quarter for those three years :

Year.	Wheat.	Barley.	Oats.
	s. d.	s. d.	s. d.
1920	86 4	73 7	45 7
1921	49 0	48 1	28 4
1922	40 9	35 1	26 6

In the autumn of 1920, farmers, anticipating the maintenance of good prices, faced the high costs of production which then prevailed for labour, seeds, rail transport, local rates and other items of expenditure. They prepared their land and sowed their winter wheat when wages, the most important item in farming costs, averaged 46*s*. 10½*d*., or 160 per cent. above the pre-war level. But when in January 1922 the crop was marketed, its price had fallen to 44 per cent. above the level of pre-war prices. The net losses on the wheat and oats of the 1921 harvest were indeed considerably reduced by the sums paid under the repeal of Part I of the Agriculture Act of 1920 in compensation for the surrender of the guarantees. From this source British growers of wheat and oats received upwards of £18,000,000.

Against the losses of the following harvest there was no set-off, and they were, in all probability, at least as severe. Costs of production still lagged far behind the falling prices of cereals. Rates continued to rise; charges for rail transport had not been reduced. The cost of labour was indeed declining under the action of the Conciliation Committees which replaced the Wages Board in October 1921. At the time when the chief expenditure was incurred, that is, in the months of September, October and November 1921, wages averaged 135 per cent. above the pre-war level as compared with the 160 per cent. of the preceding year. But this partial relief to the industry was discounted by a further fall in the prices at which the crop was marketed.

During a great part of the critical period of 1921–23 the fall in the prices of wholesale commodites other than food was more rapid, and for some time greater, than that of agricultural produce generally. This advantage to the farming industry was due to the more gradual decline in the prices of beef and mutton, dairy produce, poultry and eggs. But by the spring of 1923 these products had also fallen to a point which, as has been previously

noted, brought the percentage decrease in agricultural produce generally three points below that of wholesale commodities other than food. So heavy and comprehensive a fall in the prices of their produce must have spelt ruin for those occupying owners who had bought agricultural holdings in 1917–21 on borrowed capital. It is, therefore, satisfactory to note that under the Agricultural Credits Act, 1923, three and a half million pounds were advanced through the Public Works Loan Commissioners to purchasers who satisfied the conditions and regulations of the Act.

The rapid appreciation in the purchasing power of money during the period does not wholly explain the fluctuations in the prices of specific products of agriculture. Seasonal and other variations in supply render the farming industry exceptionally liable to instability of prices, and their operation has aggravated the effects of that general lowering of price levels which resulted from monetary disturbances. The market for agricultural products is constant. But it is also inelastic, and therefore it is peculiarly sensitive to, and disproportionately affected by, the slightest degree of surpluses or deficiencies, especially when the produce is perishable. Yet uniformity in agricultural production is unattainable. The yield of crops varies with each successive season and with the contraction or expansion of the cultivated area. To the influence on prices of these climatic and other uncertainties of home production must be added the influence of similar uncertainties in every importing country, and even of their rates of transport. Not only the yield but the quality of the crops varies with the caprice of the weather, and again prices are affected by the condition in which the produce is harvested. Finally, the prices actually realised by farmers for a considerable portion of their produce are influenced by the stringency of the financial pressure to which they are exposed. In bad times the discount for ready cash on their crops is ruinously heavy. Instances of these variations might be multiplied from the history of the last six years. Part at least of the decline in wheat prices in 1921 and 1922 was due to increased production on an extended area by the principal exporting countries. The slump in potatoes in the early months of 1923 mainly resulted from the exceptional yield of a favourable season. The exaggeration of the seasonal decline in the prices of milk, eggs and poultry in the spring of the same year was due to increased production of perishable commodities. The variations in the prices of carrots in the autumn months of 1921 and of 1922 illustrate the

changes in supply caused by differences between the seasons and the effect of an extended area of cultivation. In 1921 the price of carrots per cwt., grown on 8,224 acres, was 13*s.* 7*d.* In 1922 the area sown was 14,084 acres and prices sank to 2*s.* 11*d.* per cwt. The phenomenal drop in wheat prices after the harvests of 1922 and 1923 affords strong evidence of the financial difficulties of the industry. The same point is confirmed by the fall in September 1927. Unable to wait till their wheat had dried in the stack, many farmers have been compelled to thresh and realise at once, and, under a plentiful supply of wheat, often in poor condition, the market has broken badly.

The readjustment of the disorganised industry of farming is necessarily a slow and even a painful process. Throughout the crisis the output from agricultural land has been maintained at pre-war levels; but it has continued to change in character from corn-growing to animal husbandry and diversified farming. Cattle have increased by 500,000, pigs by 580,000 on the figures of 1913. Sheep have increased and are now only 60,000 fewer; but there is a significant decline in the heavy breeds of arable counties. The introduction of sugar beet on an area of 221,700 acres shows the willingness of farmers to adopt new crops, and probably explains the addition to the area under wheat. The production of potatoes, fruit, vegetables, eggs and poultry is greater than it was in pre-war years. But under economic pressure more arable land has again been laid down to grass, bringing the total reduction of the area under the plough, as compared with 1914, to 690,000 acres. Mr. Dampier Whetham is at his best in discussing the preference of farmers for pasture. He shows that the economic lag between costs of production and prices on grass is shorter by six or seven months than it is on arable land. Grass-farming involves less expenditure and offers greater possibilities of profit; partly because of its quicker turnover, it is also safer.

The condition of agriculture up to the harvest of 1927 was less unfavourable than might have been anticipated. The fact says much for the tenacity and courage of British farmers. But no permanent return to prosperity can be expected until the balance between prices of produce and costs of production is re-established, and the restoration of this equilibrium is only possible with a greater stabilisation of prices, not only by control over violent changes in the purchasing power of money, but by the regulation of the normal fluctuations in the prices of specific products of agriculture. The two problems are distinct and the

nature of the remedies for their respective solutions is entirely different.

Little attention has been given in political discussion to those general disturbances of price-levels by monetary causes which, from time to time, inflict on the community widespread industrial depression and unemployment. The probable explanation is that the subject is too difficult to form a telling party cry. One hopeful proposal is found in the Resolutions of the Financial Commission of the Genoa Conference in 1922. Here were at least recognised the need and the means of controlling fluctuations in the purchasing power of gold through common action by international agreement. For the time, the Resolutions lie outside the range of practical politics. But they are on record for future use. Mr. Dampier Whetham, however, goes further. He argues against the retention of gold as the basis of currency, and urges that some more stationary standard should be adopted than a commodity which falls or rises in value with the abundance or scarcity of its supply. The important question which Mr. Dampier Whetham raises may some day become a burning subject of political discussion. For the present, however, it may be enough to say that an effective gold standard has now been rebuilt, and a certain steadiness in general price-levels secured. In the past the machinery of credit on the gold basis has worked smoothly. In the future more is expected from its use. Good may come out of much evil, if recent experience is turned to account. Banks possess powerful instruments for the control of trade fluctuations. What is now asked of them, and particularly of the Treasury and the Bank of England, is that in internal finance they should adopt a new principle of policy, deliberately use their powers to maintain sterling prices at a stable level, and employ their resources to regulate their movements. If this principle were followed, discount rates would be lowered or raised, and credit expanded or restricted, not with the object of preserving reserve ratios, but with that of counteracting the causes of those feverish fluctuations of general trade which easily develop into booms or slumps.

By combined action on the lines of such a policy, recurrences of violent monetary disorders might be in normal times prevented. Agriculture, in common with other industries, may therefore hope to be freed from the paralysis of sudden economic upheavals. But though financial remedies remove the general cause of industrial depression, they do not touch the special problems of agriculture. On these one general observation may

be hazarded. Without greater steadiness of prices it is unlikely that the balance between them and costs of production can be restored or maintained, and until the market for agricultural produce is rationed, it will remain unstable and hypersensitive, reflecting in variations of value the slightest symptom of deficiency or excess. Some degree of regularity of supply can be achieved by co-operative marketing. In such methods foreign farmers have found salvation from difficulties which British farmers aggravate by their almost fierce individualism. Admirable as is their spirit of sturdy independence it must submit to modern conditions. Farming to-day is more than a "one man's job." Captains of other industries, not more highly capitalised than an average farm, are assisted by a competent staff where each individual farmer is alone and unaided. Farmers therefore cannot be reasonably expected to organise collective trading for themselves. But until a definite practical scheme of co-operative marketing has been prepared for dealing with a single product, or closely allied group of products, and submitted to the National Farmers' Union, the principle will rank with vague phrases like co-ordination and correlation, which blanket the interest of agricultural audiences.

Incidentally, it may be added that, through co-operative marketing, the difficulty of credit adapted to the protracted turnover of farmers may be partially solved. Suppose that an Association was formed in the eastern counties to pool the wheat of the district and regulate its supply to the market. The pool forms a security on which banks would advance money to the Association for distribution to the individual producers, who would thus escape the necessity of realising their crops at a ruinous discount for ready cash. On a small scale and in exceptional circumstances, the principle has been tested in this country. In 1917 individualism would have ruined all but the strongest of those engaged in the hop industry; co-operative marketing saved them all—small as well as great. The produce was compulsorily pooled in the hands of a Committee of producers, dealers and brewers, and through the Committee 80 per cent. of the estimated value of the crop was advanced to producers for the current expenses of the year. On similar lines the United States have legislated for "intermediate credit" and so saved thousands of farmers from bankruptcy. Our own Agricultural Credits Act (1923) failed to create Credit Societies on continental models. American methods, worked through our own network of provincial banks, promise better prospects of providing that agri-

cultural credit which a disastrous season has rendered a crying need.

It is important that the British public should understand the causes of agricultural depression because to their decision rival political parties submit their programmes of remedies or palliatives. Equally important is it that they should understand its extent. Conditions have been exaggerated to create the impression that British farmers owe their misfortunes to their own incompetence. Mr. Dampier Whetham's protest against exaggeration will be confirmed by most men of practical experience. No one suggests that there is not room for improvement in British agriculture. But before the present system is rooted up it is well to remember that, in this country, agricultural land equipped for cultivation is cheaper to buy or rent than elsewhere on the Continent or in the Australian Commonwealth; that the real wages of agricultural labour, low though they are, are higher here than in any European country; that if the productivity of the cropped area of land is less than that of Belgium, it is equal to that of Holland, Germany or Denmark, and higher than that of France; that through the expenditure of the private money of landowners in the equipment and maintenance of their farms, English farmers enjoy the use of an immense capital, estimated by Mr. Thompson at £815,000,000, at rates of interest considerably below those at which the Government is able to borrow; and, finally, that in crop production good farmers inherit a wisdom to which science can add little or nothing, and that, in all that relates to animal husbandry, they have no superiors in the world.

ERNLE

FINANCIAL RELATIONS OF THE STATES AND THE COMMONWEALTH OF AUSTRALIA

IN September 1924 I outlined in the ECONOMIC JOURNAL the main features of the financial relations of the States and the Commonwealth since the establishment of federation, and discussed the abortive conference of 1923 at which the Commonwealth sought to commit the States to a proposal under which the *per capita* payments of 25*s*. to the States would be terminated and the Commonwealth would give up a portion of its income tax. The subject has been a major political issue in Australia in the past four years, further conferences have been held and proposals for its solution have been made by students of the problem. At an important conference of the States and the Commonwealth held in Melbourne in June last, a basis of agreement was reached upon which legislation in the several Parliaments is pending. This is a convenient moment for bringing the former article up to date, and briefly outlining the nature of the settlement now arranged.

In the period from 1923 to 1927 the chief facts relating to the problem may be stated as follows :

(i) The customs and excise revenue has steadily expanded, due partly to the increase in the tariff and partly to the growth of imports stimulated by prosperity at home and borrowing abroad. Thus the percentage of indirect taxation to total Commonwealth taxation increased from 66 per cent in 1923 to 72 per cent. in 1926, while the proportion of indirect taxation to total taxation of the Commonwealth and the States increased from 48 per cent. to 50 per cent. only in this period. Whilst the yield of direct taxes levied by the Commonwealth has been stationary in the past three years and the rates steadily declining, the States have found it necessary to increase taxation, the total return having risen from £18,740,000 in 1923 to £23,452,000 in 1926. The Commonwealth in this period abandoned the land tax on leasehold properties, but retained the tax on freehold.

(ii) Slight changes had been brought about in the financial relations of the States and the Commonwealth on account of the

special difficulties of Western Australia and Tasmania. After investigations by the Commonwealth, both States received special grants amounting in the case of the former to £450,000 per annum for five years, and in the latter to £378,000 per annum for two years.

(iii) A second conference was convened in May 1926 at which the Commonwealth proposed that the delimitation of spheres of taxation should be made on the principle that the Commonwealth should levy indirect taxes and the States direct taxes. As a first step in this direction the Commonwealth suggested that it should retire from the field of income tax on individuals, that the *per capita* payments should cease and that temporary assistance should be given to the States to prevent dislocation in their finances in the transition period. This scheme was quite unacceptable to the States, which insisted on their moral rights to some portion of the revenue from customs and excise. The attitude of the States was expressed at a special conference of the State Premiers held in June, when it was declared "that there should be no departure from the basis upon which the financial relations of the States and the Commonwealth have rested without the fullest consideration at a constitutional session and the approval of the people at a referendum."[1]

(iv) Meanwhile, on June 4th, the Federal Treasurer had introduced a Bill for the cessation of the *per capita* payments. On this occasion he submitted an amended scheme under which the Commonwealth would surrender land tax, estate duties, entertainments tax, and 40 per cent. of the income tax on both individuals and companies. As in all other Commonwealth proposals, the Treasurer was able to show that the total amount of taxation surrendered by the Commonwealth was greater than the *per capita* payments which would be terminated.[2]

It is not necessary to repeat the objections against these schemes for adjusting financial relations. They are fully set out in the previous article. Acute differences between the States and the Commonwealth arose out of the situation brought on by the latter in using its legislative powers to terminate the *per capita* payments. The Bill was not passed until March 1927, and the general opposition to the measure and to the policy of the Commonwealth Government was largely responsible for the new

[1] Report of Conference of Commonwealth and States, May 1926 (Commonwealth Parliamentary Papers, No. 28), and Report of Conference of State Premiers, June 1926 (Victorian Parliamentary Papers, No. 17).

[2] Commonwealth Parliamentary Debates, 1916, No. 25, pp. 2677–91.

proposals that were put before the conference in June of this year. The rapid growth of the public debt and the increasing need of some measure of control over borrowing and a specific scheme of debt repayment were also factors leading to a more satisfactory settlement of financial relations. Towards this end a Loan Council had been set up in 1923 for the purpose of securing co-ordination in borrowing.[1] All States except New South Wales joined the Commonwealth in this Council, which arranged the programme of borrowing each year, though not exercising any rigorous control over the amount each authority would borrow. Another measure designed to promote a better borrowing policy arose out of the migration agreement with Great Britain. During the next ten years an amount not exceeding £34,000,000 is to be made available by the British Government at low rates of interest. These funds are to be used for the settlement of immigrants, and it is expected that a total of 450,000 will be absorbed in this period. Schemes for the expenditure of these funds are to be arranged by the Development and Migration Commission set up in 1926 for this special purpose. An important feature of the Act setting up this Commission is the provision that the Commission must approve of all schemes for the expenditure of the loan money stipulated in the agreement. This has the effect of taking some part of loan expenditure out of the hands of governments, though the funds must be expended with the approval of governments, who will ultimately be responsible for repaying the loans.

Another factor bringing the debt question into the discussion of financial relations was undoubtedly the criticism both at home and abroad concerning the growth of the debt and the unsatisfactory provision for repayment.[2] Statistics of the growth of the debt have been used with great effect by critics, and whilst the discerning student can point to many errors in the popular interpretation of the position, the discussion has had good results in forcing governments to make greater provision for repayment. The total debt of the States and the Commonwealth increased from £828,000,000 at June 30th, 1921, to £1,014,000,000 at the corresponding date in 1926. Of the increase, £138,000,000, or approximately 75 per cent., was raised abroad. The annual interest burden on the overseas debt rose from £17·4 in 1921 to £25·4 millions in 1926. Many misleading statements are made con-

[1] The *Economic Record*, May 1926.

[2] See especially the pamphlet by Messrs. Cooke and Davenport, *Australian Finance*, published in London just prior to the Imperial Conference of October 1926.

cerning this burden, which is in no way beyond the capacity of the country. The following table is of interest on this point.

(Figures in £ millions.)

Year ending June 30th.	Production. I.	Interest. Overseas. II.	Interest. Total. III.	Taxation. IV.	Proportion of II to I.	Proportion of III. to I.
	£.	£.	£.	£.	%.	%.
1911	188·4	6·8	9·6	18·5	3·6	5·1
1918	291·8	15·5	33·6	44·8	5·3	11·5
1923	379·4	20·0	46·0	68·6	5·2	12·1
1924	400·2	22·4	48·7	70·9	5·6	12·1
1925	454·1	24·2	52·2	74·5	5·3	11·5
1926	430·4	25·4	56·2	77·8	5·9	13·1

Figures for production include only certain industries and should not be confused with national income, which is probably half as large again on the average. For purposes of comparison the proportion of the interest to production shows the real burden over the period. But when allowance has been made for the ratio of debt burden to production it must still be recognised that the debt has been increasing at a very rapid rate, and there is no likelihood in the immediate future that the rate of increase will decline. Moreover, with the exception of the Commonwealth debt and the debt of Western Australia, little provision has been made for redemption. While there is a tendency to attach undue importance to sinking funds, or other measures for dealing with the debt, it has been found necessary to meet the wishes of investors abroad by arranging for a definite scheme of repayment in connection with each loan. It was in these circumstances that the Commonwealth brought forward fresh proposals at a conference last June. As these were agreed to with slight modifications of detail by the States, they may be quoted as follows according to the memorandum of the Commonwealth placed before the Conference.

Briefly stated the proposal is :

(i) The Commonwealth is to take over the whole of the public debts of the States.

(ii) The Commonwealth to apply £7,584,912 annually from its revenues towards payment of the interest charges; the States to contribute the balance.

(iii) Properly safeguarded Sinking Funds to be established in respect of existing State debts and new borrowings, and the Commonwealth to make substantial contributions to those Sinking Funds.

(iv) The management of debt and future borrowing on behalf of the Commonwealth and the States to be vested in an Australian Loan Council consisting of a representative of the Commonwealth and a representative of each State, such Council to be given powers under a Constitutional amendment.

(v) A final settlement in respect of "Transferred Properties" based on the Commonwealth assuming the liability for interest and principal of an equivalent amount of States debts.

The advantages of this arrangement are obvious. In the first place, there is no disturbance to the present system of taxes. In particular, no effort is made to make the States wholly responsible for the income tax, or to cause undue dislocation of their finances through the abolition of the *per capita* payments. The Commonwealth cannot now become solely dependent upon customs and excise, and this is a most satisfactory feature of the scheme. Secondly, the moral right of the States to some proportion of the customs revenue is maintained, for the Commonwealth not only assumes liability for interest on the State debts to an amount of £7,585,000, but it proposes to contribute towards a sinking fund for the extinction of the existing debts at the rate of 2*s*. 6*d*. per cent. per annum. This will amount to £808,000 per annum for 58 years.[1] In addition, all new debts created by the States are to be paid off through a sinking fund of 10*s*. per cent. per annum, of which the Commonwealth will contribute 5*s*. Assuming that the present rate of borrowing is sustained, the annual increase in the liability of the Commonwealth on this account would be approximately £90,000, whereas under the *per capita* payments with a population increasing at the rate of 2 per cent. per annum the annual increase at present would be £150,000. The obligation of the Commonwealth is increased by a rise in the rate of interest on transferred properties (buildings and equipment taken over at the time of federation) from 3½ per cent. to 5 per cent. If the scheme were applied to the year 1927–8, the following would be the effect upon the Commonwealth Treasury :

[1] It should be noted that the proposal requires the States to contribute to a sinking fund on existing debts at the rate of 5*s*. per cent. per annum.

Commonwealth Payments	£
Contribution towards interest on State debt .	7,585,000
Sinking fund of 2*s.* 6*d.* per cent. on State debts	808,000
Increased interest on transferred properties .	165,000
Total . .	8,558,000
Payments under *per capita* system . . .	7,735,000
Increase in Commonwealth payments to the States	823,000

(There would also be an obligation of some £90,000 on account of sinking fund on new State debt.)

Obviously the States stand to gain in the immediate future. Under the old arrangement they would be entitled to receive increased *per capita* payments of some £150,000, but in the first year of the new scheme they will receive over £900,000. If borrowing increases at a rate of £36,000,000 per annum, an unenviable prospect, the contribution of the Commonwealth will increase at a rate of £90,000 per annum, and it will be fifteen years before the contribution of the Commonwealth would be less than it would have been under the old *per capita* scheme.

A third advantage lies in the settlement of the debts. Clause 105 of the Constitution gives Parliament the right to "take over from the States their public debts" and to apply the surplus revenue of the Commonwealth payable to the States, as defined in Clause 87, to payment of interest on the debts taken over. In 1910 a referendum had sanctioned an alteration in this Clause, which originally restricted the debts that could be assumed by the Commonwealth to those "existing at the establishment of the Commonwealth"; but as another proposal designed to make the *per capita* system a permanent feature of the Constitution was rejected, no action was taken concerning the debts. Under the present agreement Clause 105 is to be again amended in the direction of giving Parliament power to make laws with respect to the State debts "for carrying out or giving effect to any agreement made or to be made between the Commonwealth and the States." There is every prospect that this amendment will be carried. If so, it is only the second substantial alteration of the Constitution despite several attempts. Both changes will refer to the one section dealing with State debts and will fasten on the Commonwealth a definite obligation in return for any increased powers granted. Though the provision of sinking funds will bulk largely in popular discussions and will appease the investor abroad, by far the most important feature of the debt settlement is the allotment of a portion of the customs revenue to

the payment of interest on the State debts. Amendments to the Act providing for the Loan Council will also have beneficial effects in promoting a common discussion of the effects of heavy borrowing, and in securing uniformity of conditions for new issues and conversions of existing debts. The sinking funds will raise the value of the stocks of some States and secure a slightly better rate of interest, while the obligation to set aside *5s.* per cent. on all new issues will serve as a slight check upon borrowing. As these sinking funds will be administered by the National Debt Commission, which controls the present Commonwealth sinking fund, there is some guarantee that the fund will not be raided by needy States, or used to justify a heavy and growing deficit, as has been the case in some States, notably Western Australia. A special feature of the proposals concerning sinking funds is the stipulation that loans to cover up deficit must bear sinking funds of 5 per cent. Against these gains from the sinking funds must be set the increased taxation required. Where the loans are for really sound development works they should furnish soon after their expenditure the increase in production allowing heavier taxation. Whilst the rate of borrowing overseas continues as at present, the sinking fund should make the transfer problem a little less difficult. By providing funds in Australia which may be used to purchase securities in London or New York, the amount of capital flowing in will not be equal to the full amount of the loans raised abroad. From this point of view the sinking fund has the merit that it will assist in preparing for the time when the loans abroad decline in importance and the full burden of interest and debt repayments fall on the export trade. But clearly this result could be obtained by reducing the loans raised abroad by the amount of the sinking fund now stipulated.

One further comment may be made. The agreement now reached implies a complete reversal of policy on the part of the Commonwealth Government. For the past six years it has been animated with the desire to reduce direct taxation as much as possible in the mistaken belief that it should return to the pre-war policy of complete dependence upon customs and excise. It is not necessary to repeat that this policy was objectionable in both theory and practice. But what amazes the student of the problem is that a government which had consistently made such bad proposals should now be responsible for a scheme which is perhaps the most satisfactory readjustment of the relations of the States and the Commonwealth since federation.

D. B. COPLAND

The University of Melbourne,
August 1927.

REVIEWS

Theory of International Prices. By PROF. JAMES W. ANGELL. (Harvard University Press. 1926. Pp. 571. 21*s*.)

THIS book is described as "History, Criticism and Restatement." It is divided into two unequal portions. One (Parts I and II, pp. 1–360) is a critical history of thought and opinion; the other and shorter portion (Part III, pp. 361–474) is theoretical.

The former portion is a really excellent piece of work. It is of a type not often undertaken. The comparison which naturally suggests itself is Professor Cannan's book on *Theories of Value*. Like him, Professor Angell has taken a certain section of Economics, and has both described and criticised the views held by a number of economic writers upon it.

But Professor Angell has dealt with a far greater number of writers and a greater range of views. In such a work intensive analysis such as Professor Cannan achieved could not be attempted, yet Professor Angell has successfully avoided the obvious danger of compressing them into a mere catalogue.

The manner in which he has given unity to his survey of opinion on an extensive and intricate subject is itself noteworthy. He has so traced the development of doctrine as to exhibit the contributions made by each successive writer to the whole as a criticism of his predecessors or contemporaries. Under Professor Angell's guidance we see the theory of international trade being steadily built up, stone by stone.

He shows us exactly what Ricardo contributed, and how much of what is often regarded as his doctrine really came from Hume or Thornton. We see the intrusion of the theory of the money market and bank rate into the theory of foreign trade. Along with the "joint intellectual authorship" of Sidgwick and Marshall, place is found for the important contribution of Giffen to this branch of the subject and for the eccentric flashes of Macleod.

Part I, which deals with English and American thought, starts from the Mercantilists of the seventeenth century and carries the history down to the present day.

Part II traces French thought from the eighteenth century, German and Austrian from 1860, Italian from a more recent date.

If the international influences revealed are interesting, the international barriers are sometimes even more remarkable.

Again and again the isolation of one country from another has to be recorded, or their mutual influence is shown to be slight and ephemeral.

What is equally striking is the way that, especially in France, writers have been ignored by their contemporaries and their successors, and their views have had to be rediscovered.

The theoretical part of the book, in which Professor Angell expounds his own opinions upon his subject, has been rather crowded out by the historical and critical. It might well have occupied an entire separate volume.

A suggestive chapter on the relationships between national price structures discusses the cases in which the working of the market does not effectively link together the prices of similar products in different countries.

There follows an exposition of the manner in which equilibrium is maintained in the balance of payments. Professor Angell's contribution to this problem is ingenious, but not altogether convincing. He assumes the balance of payments between two countries to be disturbed, *e.g.* by a loan raised in one to be spent in the other. The borrowers, receiving the proceeds in the lending country, will seek to remit them, and will buy bills on their own country. The supply of bills in the hands of the banks of the lending country will be diminished and those in the hands of the banks of the borrowing country will be increased. To these changes in banking assets will correspond equal changes in liabilities, that is to say, in deposits, which supply the means of payment.

That this process, when it occurs, tends to diminish the supply of the means of payment in one country and to increase it in the other is worthy of note, and has, I think, hitherto been neglected. But it is not in itself adequate to form the foundation of a comprehensive theory. In the first place it is of insufficient generality; the transmission of funds *may* take place without any change in banking assets. And secondly, the effect is transitory; so long as there is no movement of gold, and the cash resources of the banks in the two countries remain unchanged, the deposits in both will tend to return to their former level.

A chapter on dissimilar currencies and the effects of depreciation is mainly statistical. It is an attempt to test by the French, English and German experience of the post-war years the order of events as between a rise of prices, an unfavourable exchange, and an increase in the note issue.

Professor Angell is not always quite at home with English

statistics. He finds that private deposits at the Bank of England reached a peak in February 1920. "But they then declined prodigiously in consequence of the severe advance in the bank rate."

"The correction of the exchanges coincided with the fall in private deposits at the bank and is explained by it. *In the first instance* the improvement in the exchanges and prices and the note circulation were therefore entirely due to the rigorous contraction of private credit which the bank enforced."

It is usually unsafe to draw inferences from the fluctuations in private deposits at the Bank of England. If they fell from £173 millions on the 25th February, 1920, to £101 millions on the 31st March (as Professor Angell says, "60 per cent. of the February figure"), the explanation is to be found in the maturity of a large block of Exchequer Bonds in February, necessitating a purely transitory rise of Government securities from £46 millions on the 4th February to £87 millions on the 18th. On the 31st March Government securities had fallen (through repayment of Ways and Means Advances) to £20 millions. Private deposits were actually *higher* both on the 24th March and on the 7th April than at the beginning of February. The "severe advance in the bank rate" occurred on the 15th April.

The concluding chapter on Ratios of Exchange is well handled, but is little more than a sketch.

It is very much to be hoped that Professor Angell will elaborate his theories of foreign trade in a future volume.

R. G. HAWTREY

Kritischer Beitrag zur Theorie des internationalen Handels. By DR. H. WEIGMANN. (Jena: Gustav Fischer. 1926. Pp. 82.)

Weltwirtschaft und Weltanschauung. By A. SARTORIUS VON WALTERSHAUSEN. (Jena: Gustav Fischer. 1927. Pp. 172.)

THE theory of International Trade has recently received considerable attention in Germany. There is the work of Alfred Amonn, *Ricardo als Begründer der theoretischen Nationalökonomie.* There is the controversy conducted in the Weltwirtschaftliches Archiv two years ago by Boehler, Kotsching and Harms. Dr. Weigmann rejects the argument of Boehler that the classical theory of International Trade should be regarded as "applied theory" and not (as Harms holds) as "universal economy." The main purpose of his work is to consider whether the phenomena of International Trade are such as to find their solution in the

same theory of exchange which furnishes the explanation of the facts of domestic commerce. He expounds carefully the views of Ricardo, Mill and Edgeworth. His conclusion is, however, unfavourable to the treatment of International Trade as a distinct branch of economic doctrine. "The theory of International Trade, regarded from the point of view of theory, is theory and nothing more than theory; regarded from the point of view of applied economics, it is the unfortunate product of a mixed marriage of theory and commercial policy." At the same time, Dr. Weigmann notes that the Theory of International Trade is capable of a remarkable extension—an extension which renders superfluous a separate theory of International Trade. Dr. Weigmann insists upon the importance of keeping the discussion of the question free from all open or concealed political notions, and himself outlines a theory which may serve as a basis for an a-national consideration of world economic relations in the sense of competing markets. This is to form the subject of a future work, the appearance of which is dependent upon certain statistical experiments which he is now conducting.

"Weltwirtschaft" forms the main topic of Professor von Waltershausen's latest work, but the value of his contribution to the subject is less significant than we might have expected from the author of *Deutsche Wirtschaftsgeschichte.* His treatment of the problem is vague and discursive—a loosely compounded mixture of economic doctrines, economic history and numerous "obiter dicta" about the perverse blindness of the working class and the post-war economic distress of Germany. The first part of the book is devoted to a consideration of Individualism and Socialism, and an exposition of the theories of Adam Müller, Carey, List and Lorenz von Stein in relation to (1) their philosophical background, and (2) their connection with "Weltwirtschaft." By this method, Professor von Waltershausen hopes to elucidate the essential character of "Weltwirtschaft." This first part of the book is much superior to the second. In the second part an attempt is made—still from the angle of "Weltwirtschaft"—to apply the theories to two specific problems, the wages problem and the external economic policy of the State. The attempt throws no new light upon these problems.

J. LEMBERGER

The University of Belfast.

The Gold Standard in Theory and Practice. By R. G. HAWTREY. (London: Longmans, Green & Co. 1927. Pp. viii + 124. Price 3*s*. net.)

THIS book comprises four lectures delivered for the Institute of Bankers in November and December 1926, and printed in the Institute's *Journal* for January to April 1927.

Mr. Hawtrey begins by trailing his coat in a rather unnecessarily provocative manner. In the Preface he declares that "Currency is better explained in terms of credit than credit in terms of currency," and on p. 1 of the text he alleges that "economists have been inclined to teach" that the usage of the precious metals as a measure of value and medium of exchange "is so firmly established that it approximates to a moral principle, as if the use of a metallic currency were somehow essential to honest dealing." Surely it is some bankers and other business men rather than "economists" who regard gold as a heaven-sent medium of exchange and an immutable standard of value. The economists have generally had some ideal in their minds which they thought better, though for the moment unpractical, and they have often been looked on with suspicion by the bankers in consequence. Having thus ruffled most of the expounders of monetary theory and the economists, Mr. Hawtrey proceeds to tickle the historians and lexicographers by alleging that money cannot exist until something is made legal tender by law. As we can scarcely suppose the Hittites of Abraham's time had passed any legal-tender legislation, it must be a mistranslation to make the shekels which Abraham paid for the cave of Machpelah "money," and Mr. Hawtrey thinks "standard money" disappeared in England during the earlier part of the 1797-1821 "Restriction," when guineas had disappeared and bank notes had not yet been made legal tender. But surely there is no doubt about the truth of the commonplace belief that legal-tender legislation was merely legislation directed towards removing doubts about the meaning of contracts to pay specified amounts of the unit of account. History repeated itself in this respect when Lord King's attempt to collect his rents in guineas at 20 to 21 "pounds," though they were specified in "pounds" caused the British legislation to provide that "pounds" were to be taken to include Bank of England notes.

On p. 10 Mr. Hawtrey adopts what seems an heretical view:

"The amount of monetary units which people have to offer is the total of their incomes. The national income of this country is estimated at £4,000

millions or, say, £11,000,000 a day. That means that the total demand for goods and services of all kinds averages £11,000,000 a day."

In one sense of "spending," at any rate if we overlook some difficulties about additions to capital, the proceeds of some taxes, and newly created additional currency, it is doubtless true that the money "spent" in a year is equal to the money-income of the year; but does that justify the proposition that the amount of money which people "have to offer" [in a year] is the total of their annual [money] income? Can we exclude the working expenditure of producers and distributors when dealing with monetary theory in relation to prices? The money which these people spend may be, and no doubt generally is, recovered from the ultimate consumers, but it may be "lost," and mistakes of optimism and pessimism lead its spenders to make mistakes which have important effects on the purchasing power of money. The orthodox plan of thinking of all kinds of offers of money for goods and services seems distinctly preferable, though we require to be careful not to fall into the error of imagining a gigantic barter of "all the goods on the one side" and "all the money on the other."

But after a rather dubious beginning the book goes very well. "People," we are told (p. 15), "who carry on the business of banking for profit cannot be expected to exercise a check upon lending." The check is to be imposed "by the authority which issues money." This is a "heavy responsibility," owing to the difficulty of deciding in any set of circumstances whether, and if so what, action is called for. "The gold standard may be regarded as a device for enabling the authority through which money is issued to solve this problem in a rough-and-ready way." The problem is solved by the authority abandoning the exercise of its discretion: "The supply of money is simply the supply of gold. . . . The value of the monetary unit is equated to the value of a specified quantity of gold, and the value of gold is determined, like that of any other commodity, by free dealings in a market." A "mechanical" limit is substituted for a discretionary one, and though Mr. Hawtrey does not say it in so many words, we may gather that he regards the mechanical limit as superior to the discretionary limit in single countries working separately, although it will not hold in troublous times unless "wisdom and courage" are present. "In 1914 the financial authorities of the world were found wanting," and "the difficulties of war finance were enormously increased by various expedients of an inflationary tendency" (p. 90). The mechanical device is capable of considerable conscious adjustment: civilised countries must

make up their minds to adopt the Genoa Conference recommendation of enlarging their stores of gold when gold threatens to fall in purchasing power, and to diminish them when it threatens to rise. It may seem rather absurd to work gold mines merely to increase unnecessary stores, but this expense is trifling in comparison with the advantages gained (p. 103), and the advantage of stability in the foreign exchanges is particularly great for Great Britain (p. 106).

EDWIN CANNAN

Money. By EDWIN CANNAN. 5th Edition. (London: King. Pp. 120. 3*s.* 6*d.*)

THE fourth edition of Professor Cannan's excellent little book was reviewed in the ECONOMIC JOURNAL for June 1924. The new matter added in the fifth edition is not very extensive. A short section has been inserted to show that the rise of prices during the war could not be explained by a "scarcity of commodities." Production did not diminish during the war, but was diverted to munitions, military service, etc., and on balance was largely increased.

A more controversial feature is a passage briefly relating the return of this country to the gold standard, together with two appendices describing the method of issuing Currency Notes and the operation of the Gold Standard.

Here Professor Cannan makes the mistake of attributing too much initiative to the Treasury in currency administration. He speaks of the Currency Notes Account selling its notes to the Bank of England "in much the same way as dealers in gold used to sell gold bullion to it." The comparison is misleading. The Bank of England never *holds* currency notes, as it holds bullion, and consequently never itself buys them. The initiative rests solely with the customers of the Bank, who draw out what notes they require in exchange for a debit against their deposits. The Government draws out notes and pays for them on exactly the same footing as other customers of the Bank, only for the purpose of payments (such as dockyard and wages) which have to be made in cash.

The seller of a sum of gold bullion to the Bank brings about the issue of an equal amount of Bank of England notes, which swell the assets of the Banking Department, and increase the supply of cash in the money market. The Treasury does not produce these effects except when it borrows from the Bank on Ways and Means.

Professor Cannan describes as " the most insidious and the most dangerous of all the arguments in favour of increasing issues " the plea that the issue of notes is " ' automatic,' as it only takes place when the notes are asked for " (page 57). Perhaps he is right. But it is no use trying to dispose of the argument by denying or ignoring the fact. In this country currency notes *are* only issued when asked for. And the insidious and dangerous argument is not so much that the issue is " automatic " as that the demand which evokes it is an act of God, beyond human control.

The power of taking currency notes is conferred by a deposit at the Bank of England, and a deposit is created by a loan. Unfortunately, Professor Cannan has disabled himself from pursuing the subject in this direction by his refusal to admit that deposits are created by loans. If the deposits in the Bank of England are nothing but the money paid in by the depositors, and the Bank of England has nothing to lend but that money, the part played by the Bank here also is completely passive; the Bank is nothing more than an " intermediary " between its depositors and those to whom it lends (pp. 82–3). In order to make such a view intelligible at all, it is essential to suppose that a supply of " money " or currency notes is somehow created *before* the deposit against which the notes are issued. Hence the mistaken comparison of the Currency Notes Account to a seller of gold bullion to the Bank.

Professor Cannan's view of the relation of deposits to loans would be correct if the proceeds of every bank loan were *invariably withdrawn forthwith in money* and were not redeposited. In so far as the withdrawals of money lag behind an increase in loans, deposits are " created." In practice, when bank lending increases, the consequent increase in monetary circulation is in general far less than the increase in deposits, and lags far behind it, at any rate in a country like England or the United States, where all the major payments are made by cheque.

The demand for currency at any moment is the resultant of the credit policy pursued in the preceding period. Professor Cannan is compelled by his peculiar theory of bank deposits to see the process upside down.

Professor Cannan finds a weak point in the gold bullion standard established by the Gold Standard Act, 1925, in that whereas " the Treasury, not the Bank, is the issuer " of currency notes, it is the Bank, not the Treasury, which is obliged to redeem them in gold (p. 119). But the obligation of the Bank is not

especially to redeem currency notes; it is to sell gold bullion for *any* legal tender, and in practice that means to sell gold bullion for payment by cheque. Currency notes only enter into the matter in that a legal obligation to buy anything includes an obligation to pay for it with legal tender.

Observance of the obligation depends on a prudent regulation of credit, and that is a matter for the Bank and not for the Treasury.

R. G. HAWTREY

Modern Monetary Systems. By PROFESSOR BERTRAND NOGARO. (London: King. Pp. 236. 15*s.*)

IN this book Professor Nogaro's attitude is predominantly critical. The constructive side of it, whether in the form of theory or of practical proposals, is comparatively slight. His criticism has the outstanding defect that he does not adequately formulate the views he attacks.

This is especially so in the case of the quantity theory of money. It ought not to be possible nowadays for an economist of the standing and capacity of Professor Nogaro to state the quantity theory without the customary qualifications in respect of the volume of products, the rapidity of circulation of money and the use of credit. He need not have looked beyond the pages of John Stuart Mill to find the need of filling these gaps indicated.

No harm would have been done if he had proceeded to fill them on his own account, and to offer a coherent statement of the relations between monetary policy on the one hand and the price level on the other. But his criticisms are not theoretical but *a posteriori*. It is unprofitable to take a crude piece of theory which no one would support, in order to show that the facts do not correspond to it.

If the price level often rises or falls more or less than in proportion to the stock of money, Mill's quantity theory offers quite adequate *prima facie* explanations; but Professor Nogaro might have had to consult the works of some of his contemporaries to find such matters as the relation of rapidity of circulation to market psychology worked out in detail. In most of the cases of collapsed currencies which he quotes the governing factor was either a complete loss of confidence leading to a flight from the currency and a rapid contraction of the purchasing power of the total circulation, or a sudden return of confidence permitting of a recovery of the value of the currency unit concurrently with an expansion of the circulation.

About these movements there is no mystery. Had Professor Nogaro taken account of the well-recognised explanations of them, his line of argument would have been quite different.

He lays stress on the power of an exchange movement to originate a change in the price level. There is nothing in that inconsistent with the quantity theory. The foreign exchange movements to which Professor Nogaro refers are themselves for the most part psychological. A casual discrepancy in the balance of payments does not materially affect rates of exchange unless people's expectations as to the future value of the currency are disturbed.

He objects to Professor Cassel's theory of purchasing power parity, that when such a disturbance occurs it may be the price levels that adjust themselves to the rates of exchange, not the rates of exchange to the price levels. But he is, I think, doing Professor Cassel an injustice in imputing to him a disregard of this alternative. The doctrine of purchasing power parity asserts that the price levels and rates of exchange tend towards equilibrium, but it says nothing as to which will move towards the other.

But that does not mean that the tendency of the price level to accommodate itself to the foreign exchanges *cannot be corrected.* Professor Nogaro expresses the opinion that " nothing is more futile than to attempt to withhold the volume of currency required by a rise in prices, once the latter has occurred as the result of an exchange movement " (p. 157), and he adds in a footnote that " private individuals will have recourse to their capital in order to meet the lack of currency."

But how is this " capital " to be transformed into currency? Clearly only by *borrowing* from the authority which issues currency. Suppose that that authority refuses to lend, as the Reichsbank refused in April 1924; then the supply of currency cannot be increased. To one who is entirely sceptical of the quantity theory of money, that may be no sufficient reply. But Professor Nogaro is not entirely sceptical. He holds that small movements in the supply of money do not affect the price level, but that large movements do.

" The Quantity Theory," he says, " is obvious in cases where currency has been widely expanded. But it is no longer so in cases where there have been moderate changes in the circulation " (p. 230). " The maintenance of approximate stability in the purchasing power of a currency presupposes the maintenance of the circulation without any great changes at a figure corre-

sponding to the price level which it is desired to maintain" (p. 201).

Does it not follow that if the issuing authority, by refusing to lend or by any other method, restricts the supply of currency enough, it can "withhold the volume of currency required by a rise in prices," and can thereby enforce a fall in prices? It can maintain the circulation "at a figure corresponding to the price level which it is desired to maintain." That course may be undesirable, but that does not mean that it is futile or ineffective.

There is much to be said as to the difficulty of establishing equilibrium at any prescribed level of purchasing power, but Professor Nogaro does not say it. He is content with his empirical arguments against the quantity theory.

His principal conclusion is that convertibility of the currency into gold or foreign exchange is essential to any plan of stabilisation. Since by stabilisation he means stabilisation in terms of gold or foreign exchange, few people will be found to differ from him at this point.

He favours a scheme for an international clearing house, an "international credit institute" on which any participating country could draw bills payable in gold to cover a temporarily unfavourable balance of payments. Essentially this is a development of the gold exchange standard on the lines of Professor Irving Fisher's scheme, in his *Purchasing Power of Money*, but *without* any plan for stabilising the purchasing power of the currency unit.

The omission is flagrant. Professor Nogaro argues against Professor Fisher's stabilisation plan. But he never really gets to the root of the matter. And he does not see that any heroic measure for economising the use of gold as currency is extremely dangerous unless accompanied by some device for preventing the excessive depreciation either of currency units or of gold in terms of wealth.

The proposal for an international credit institute, as he describes it, does not embody any limitation on the institute's lending operations. If all gold standard countries participated, the institute would never have to part with gold (except to meet the industrial demand). It could expand credit to almost any extent. Not only is this a danger from the point of view of the stability of purchasing power, but it opens the door to excessive demands for credit from individual countries. So long as it is possible to go on drawing bills on the institute, there is no check on inflationism.

Professor Nogaro would probably answer that room can be found in his proposal for all the requisite safeguards. But without them it is a mere scaffolding; he has not begun to build.

R. G. HAWTREY

Controlling the Output of Gold. By PROFESSOR R. A. LEHFELDT. (London General Press. Pp. 31. *1s.*)

THIS pamphlet is a reprint of a series of articles which appeared in the *Economist*, reinforced by an addition of considerable interest, a preface by Dr. Schacht. Dr. Schacht's support of the policy of stabilising the wealth value of gold is a matter of great moment to the monetary welfare of the world.

Professor Lehfeldt argues that, for the purpose of stabilising the wealth value of gold, " control of credit is not enough, because the value of gold must ultimately depend on the cost of mining it; the larger and slower changes in value cannot be prevented through credit policy alone." Accordingly he would propose an International Commission under the auspices of the League of Nations, but including representatives of the United States, and if possible Russia, for the purpose of either limiting or stimulating the production of gold, as circumstances might require.

Theoretically Professor Lehfeldt is right in holding that control of credit would not in all conceivable circumstances be enough to stabilise gold. An excessive gold supply might swamp the control of credit; a deficient supply might ultimately allow the industrial demand to exhaust the monetary reserves. But neither of these contingencies is at present probable enough to require any precautions to be taken against them. If some countries have a redundant gold supply, that is because the total is very unequally distributed. The foreign exchanges are not yet in true equilibrium, and, till they are, it is difficult to bring about a redistribution of the gold. Demands for gold spring up among those countries which are (or think themselves) short of it, and fall upon others in the same condition instead of on those which have more than they know what to do with. Credit stringency ensues and prices fall, as if there were a real scarcity of gold. Such disturbances could be avoided by an internationally concerted regulation of credit, and without that no other measures for steadying the value of gold would be of any avail.

Professor Lehfeldt's proposals are intended to prevent the " larger and slower changes " in the value of gold. Those changes are less harmful than the cyclical and short-period changes, for

though they do inflict some injustice on long-term debtors or creditors, the injustice is hardly, if at all, *felt*. It is not a serious factor in economic motives, and therefore does not materially affect economic activity.

It is not even true that the long-period changes cannot be counteracted by monetary measures. Suppose that an international plan for stabilising gold is in operation, and is threatened by an excess or deficiency of output. All that is required is an alteration in the gold value of the currency units on the lines suggested by Professor Irving Fisher or Mr. Keynes. If the same alteration is made by agreement in all gold standard countries simultaneously, rates of exchange remain unchanged. And in view of the very gradual effect of annual output upon supply, such alterations would probably have to be made only once in a generation, and even then by small steps at a time.

Nevertheless if measures are taken, by means of an international gold exchange standard and a redistribution of gold reserves, to effect a great economy in the monetary use of gold, it is highly desirable to curtail the application of fresh productive resources to gold mining. The justification for a restriction of output on that hypothesis is not that the purchasing power of currency *cannot* otherwise be stabilised, but that production of gold for the sole purpose of being held in gold reserves which are already excessive is pure waste.

R. G. HAWTREY

War and Insurance. (London: HUMPHREY MILFORD, Oxford University Press.)

THIS volume is one of the British series of the Economic and Social History of the World War for which the Division of Economics and History of the Carnegie Endowment for International Peace is ultimately responsible. This Division of the Carnegie Fund has drawn up a plan under which it has endeavoured to secure from "men of judicial temper and adequate training" contributions conceived "in the spirit of historic research," covering the effects of the War on the economic and social life of the belligerent countries. The idea is not so much to write a history, but rather to provide the future historian with authoritative and reliable records, in a form "halfway between memoirs and blue books."

The word "insurance" is used to cover various activities which have very little in common. In fire and marine insurance

the essence is to guess the right premium to charge, in life insurance to invest the funds to the best advantage, and in national health and unemployment insurance to distribute equitably the cost of important social services between the beneficiaries, their employers, and the general taxpayer. The editors have therefore decided quite rightly not to treat "insurance" as one subject, and have obtained independent contributions from experts in the various forms of insurance.

The first article is one by Sir Norman Hill, on "State Insurance against War Risks at Sea." For many years before the war it had been realised that one of our first problems in the event of war with a naval power would be to devise a means by which the mercantile marine would continue to function. The risk of loss by enemy action was not covered by the ordinary contracts of marine insurance, nor was there any means by which this risk could be calculated in advance. It could only be determined by the actual experience of the war. After several Committees and Commissions had explored the ground, thanks to the foresight of Mr. Asquith, a Sub-Committee of the Committee of Imperial Defence was appointed in May 1913 to draw up a scheme to solve this problem. On April 30, 1914, the Sub-Committee presented a report embodying a scheme which was actually adopted by the Government only on the Sunday before war was declared. The essence of the scheme was that the State should go into partnership with the War Risk Mutual Insurance Association, formed by the shipowners, the State undertaking 80 per cent. of the risk, and claiming the right to fix the rate of premium and to control the movements of the insured ships. The administration of the scheme was left in the hands of the Shipowners' Associations.

Sir Norman Hill gives a full and authoritative account of the inception and the working of this scheme throughout the war, and shows how successfully it achieved its object. Unfortunately he has disfigured what would otherwise have been an admirable historic record by expressing opinions which are in no way relevant to his task. It is not an example of "judicial temper" to say, as Sir Norman Hill does on page 25, "The Admiralty had failed disastrously even to understand the perils to oversea trade from submarine warfare, and they had made hardly any provision to guard against them." And it is not in "a spirit of historic research" to refer (page 50) to the German submarine methods of warfare as "an organised system of piracy which would have disgraced the most bloodthirsty ruffian who ever sailed out of

Algiers." This in an international series intended to promote the cause of peace !

Sir Norman in his concluding paragraphs rather quaintly discovers two dangers which he claims resulted from the feeling of security created by the successful working of the scheme. The first is that the scheme " in great measure is responsible for the debt that was piled up by the nation in the vain attempt to maintain a peace standard of living." The second is that " we started our anti-submarine work twenty-four months late, and thereby we nearly lost the war," because the Admiralty were so stupid as not to realise that the cash payments made under the scheme could not replace the ships that were lost. On these problems, one of economics and the other of naval strategy, the future historian should not be misled by the *obiter dicta* of Sir Norman Hill.

Unlike marine insurance, other forms of insurance were not faced at the outset of the war with any problems on the wise solution of which the life of a nation depended. In the articles which follow, we have therefore a series of historic documents each written by an expert in his own line, setting on record the steps taken by the companies or the departments concerned to bring these various forms of insurance into harmony with the changing conditions prevailing during the war.

In the chapter on fire insurance, by Messrs. S. Preston and A. E. Sich, the authors show that on balance the business of fire insurance prospered as the result of the war. As in all times of rising prices the proportion of fire claims fell because quite naturally people take more care of their property when it is increasing in value almost day by day than when it is undergoing the reverse process. On the other hand, the fire companies suffered a certain amount of loss through the difficulty of transacting their foreign business under war conditions. By providing the organisation through which the Government's scheme of anti-aircraft insurance was made available for everybody concerned with the minimum trouble and inconvenience the fire offices rendered a national service.

In the chapter on life insurance Mr. Warner has collected with praiseworthy industry masses of statistics showing that the war had an effect directly or indirectly on almost every item in the accounts of a life office. He also gives a valuable account, which should be a warning to future legislators, of the results of The Courts (Emergency Powers) Act, 1914.

On page 120 Mr. Warner refers to the Government scheme

under which holders of dollar securities and later on of other approved investments were asked to deposit them with the Treasury in order to maintain the New York exchange. Mr. Warner says that this scheme " *enabled* (my italics) the Treasury to maintain the dollar exchange until the close of operations in 1919 at a practically uniform rate of $\$4{\cdot}76\frac{7}{16}$." This is not correct. Shortly before America came into the war in April 1917 the position of the dollar exchange was a critical one. After America declared war arrangements were made between the British and American Treasuries which enabled the exchange to be " pegged " until 1919. If in any future edition Mr. Warner would alter the word " enabled " to " assisted " his statement would then be correct.

The most important effect of the war on British life insurance was the change brought about in the value of the assets held by the offices. Mr. Warner gives some figures as to the total depreciation, but does not discuss the many investment problems which the offices had to face.

National Health Insurance is discussed by Sir Alfred Watson, K.C.B., and Unemployment Insurance by Sir William Beveridge. Each of these articles contains an admirable summary of the effect of war on what are essentially peace-time national social services. During the war unemployment almost ceased to exist and the wages scale continued to rise, with the result that sickness claims fell far below expectation. The higher rate of interest due to the war was also a material help to the societies through whom the national health scheme was worked. At the outbreak of the war these two schemes were in their infancy, and there is no doubt that the war helped to place them on their feet.

The volume closes with an interesting article by Sir William Schooling describing the activities of the " National Savings Movement." The object of this movement was twofold. It created an organisation of missionaries whose duty it was to preach the necessity of thrift. And it provided the machinery by which the wage-earner could invest small sums in Government Securities in an attractive form. The machinery set up purely as a war measure still survives, and affords the wage-earning classes a convenient means of saving money in small sums.

C. R. V. COUTTS

Das Schicksal des Deutschen Kapitalismus. By M. J. BONN. (Fischer : Jena. Pp. 62.)

THE efficiency of German capitalism has become something of a tradition nowadays. In this country, indeed, it is becoming something more than a tradition. It is becoming one of those generally accepted truths to question which is a sign of ignorance. Nothing that the Germans do can shake our belief in their superior wisdom. To a detached observer, perhaps, the kaleidoscopic changes in German economic organisation in the last decade might suggest that not all the multitudinous policies adopted were necessarily the most advantageous. To us, however, they are merely proof of an uncanny adaptability. So far from being shaken by such events, the dogma of German efficiency emerges revindicated. And this dogma is not one which is held exclusively by any one section of the community. Economists and politicians, employers and trade unionists, all join hands to uphold it. Are our collieries slack? We have not adopted German methods. Is our agriculture depressed? We have not followed the German reformers. Is there a falling off in a foreign market? What can it be but German competition? Earnest little bands of trade unionists make pilgrimages to the shrines of Krupp and of Thyssen. The agents of depressed political parties seek in Germany the secret of industrial (and political) rejuvenation. Government committees hymn the praises of German monopoly. Company directors and eminent economists chime in with full-throated admiration. Any disposition to question the undiluted benefits of German methods of business is, we are told, only an indication of failure to keep abreast of the most advanced tendencies of modern thought.

Professor Bonn, however, who has the disadvantage of first-hand acquaintance with these methods, does not share the enthusiasm of their English admirers, and he has written a very vigorous tract expressing his distrust of the economic philosophy upon which they are founded. It is quite clear from *Das Schicksal des Deutschen Kapitalismus* that Professor Bonn is very far from crediting the leaders of German industry with far-seeing economic judgment. " There is no country in the world," he says, " where individuals have an equal ability in matters of economic detail and where there is an equal level of general education, which exhibits such a domination of mere dilettantism in General Economic Policy as Germany " (p. 53). To English observers, distance may lend enchantment to the scene. Close up in the

watch-tower of the Berlin *Handelschochschule*, Professor Bonn refuses to be enchanted. Englishmen may sing the praises of "*Rationalisierung*" and "*Planwirtschaft*." "*Rationalisierung des Stillstands*," "*Planlose Planwirtschaft*" are the less inspiring designations Professor Bonn finds more applicable. In England we have been inclined to ascribe recent changes in the structure of German industry to an enlightened attempt to mitigate the friction of economic change while losing none of its benefits. Professor Bonn does not hold this opinion. Price maintenance, he declares roundly, is the be-all and end-all of this policy—the medieval idea of a "*ständisch*" society, the dominating vision. "German capitalism," he says, "derives its ideas from the mediæval philosophy of the just price. It assumes that an undertaking has the moral right to cover its costs" (p. 38). What has been invested in an industry has the right to a stable return. If, at any time, at the current level of prices the return is not adequate, then prices must be raised. Costs must govern prices, not prices costs. "In those branches of industry which possess the greatest political power, in mining and in the iron and steel trades, production is based upon a conspicuous physical equipment. Not only to socialists and bureaucrats, but also to many employers this appears as *the* tangible economic substance—as a mass of value, which has been crystallised into stone and iron whose costs are given, and whose costs *must* be covered by the proceeds. . . . If sales fall off, then on this view prices must be raised that no damage may be suffered by the substance." "*Die Substance ist heilig*" (p. 59). It is the apotheosis of economic materialism.

Nor is Professor Bonn any more impressed by the cosmopolitan tendencies which have recently made themselves manifest in certain circles of German industry—by "*der Freihandel der Schutzzöllner*" as he calls them—and by the movement towards the international combine. Who are these cosmopolitans? he asks. Are they not those who at other times have pressed most urgently for tariffs? Is this new attitude the result of a change of heart or a change of their present conception of short-run expediency? Emphatically the latter, he answers. It is another form of the doctrine of price maintenance. Since national monopoly will no longer secure the customary profit, monopoly must be internationalised. "*Das Monopol ist bedroht; es muss internationalisiert werden*" (p. 39). Each nation must secure a quota that will guarantee the profitable working of existing plant. And since many concerns have grown up under the protection of high tariffs, and since they are working under more

unfavourable conditions than others, they will only come in if the price fixed is a relatively high one. "The retrograde idea of the cartel must be internationalised. *Auch die Industrie der rück-ständigen Länder soll rentabel gemacht werden*" (p. 41).

Such a form of capitalism, for Professor Bonn, has no permanent survival value. It is a capitalism which denies the essential nature of capitalism. Instead of transforming production, it seeks to confine it within old channels. Instead of seeking prosperity through cheapness and plenty, it seeks it through dearness and restriction. It refuses to shoulder the burden of loss. It foregoes, therefore, the right to profit. The great justification of capitalism, on this view, is its capacity for quick adaptation to dynamic changes, its ability to respond without the delays of political procedure to the altered stimuli of a new environment. If it refuses to shoulder the risks and losses involved by such transformations, it denies its own being and renders itself superfluous. It perpetuates a state of economic moribundity which is simply socialism under another name. "Truly," concludes Professor Bonn, "the fate of German capitalism rests in weak hands" (p. 62).

This is essentially a tract to read. There is not one page in it which is not packed with wisdom and penetration. I have dwelt upon Professor Bonn's views on the policy of rationalisation as being most pertinent to our own controversies. But these are only a part, although the chief part, of a wider survey of German conditions since the war; and on everything he touches he is equally stimulating and provocative. Whether he is discussing the revolution or the peace treaties, the fall of the mark, or what he calls the "*Gegenkolonization*" of the post-war period—always he has something to say which is arresting and illuminating. Nor is the form inferior to the substance. Professor Bonn does not know how to be dull: at least he gives no exhibition of such powers in this monograph. He has the flair for the *mot juste* of the great pamphleteers:—"*Die Romantik, die so gern die Handlungen einer Praxis, die sie nicht versteht, zu erklaren sucht, ist schon an der Arbeit, die Theorie nachzuliefern*"—the reader notes the phrase with feelings akin to physical relief. The one complaint that English readers are likely to make is that the thing is too short. Writing for a German public, Professor Bonn states his views fully and with admirable emphasis: he does not produce the inductive material upon which they are based. But this, of course, is a deficiency necessarily involved by the form he has adopted. Some day perhaps Professor Bonn will write

the authoritative and compendious survey of German industry since the war which his capacities so eminently qualify him to give us. Meanwhile he has provided a very salutory cold douche for all who seek salvation in affectively-toned catchwords.

LIONEL ROBBINS

New College,
Oxford.

The War and the Shipping Industry. By C. ERNEST FAYLE. (Pp. xxiv + 472, including 60 pages of tables and index. Published on behalf of the Carnegie Endowment for International Peace by Humphrey Milford, Oxford University Press. 17s.)

THIS forms one volume of the British Series of the Economic and Social History of the World War. The author sets out to "give an account of the way in which the Shipping Industry of Great Britain was affected by the war and by those administrative developments which were the product of war conditions. It is concerned with the effect of the war on the financial position, character and internal organisation of the industry; on the economic status of the merchant seaman; on the relations between shipping and the State, and on the development of shipping policy."

After describing the conditions of our shipping in 1914 and the relations existing between it and the State, Mr. Fayle goes on to trace the development of control during the war period; thus the story includes a section on Shipping and the State in 1916; the appointment of the Controller and his powers, including universal requisition. This is followed by a chapter dealing with Earnings and Profits, 1915–16, in which several misconceptions are dealt with. It is pointed out that our shipowner had some special claim to consideration in the matter of Excess Profits Duty, inasmuch as his neutral competitors were reaping a yet richer harvest, and were in a position to accumulate large reserves for purposes of post-war competition.

The chapter on Wages and Conditions Afloat is full of interest, dealing as it does with the shortage of man-power; non-European labour; British and American wages; and concluding with an account of the establishment of the National Maritime Board and its work.

The Working of "Blue Book Terms" is explained in Chapter XVIII, and this is naturally followed by a section on Profits

and Replacement. Less than ten pages is given up to the War Record of British Shipping. It was indeed a great achievement, carried out at a great cost of men and tonnage, but the conclusion in these days of forgetfulness is worth quoting in full:

"It is no exaggeration to say that the possession by Great Britain of a mercantile fleet much larger than was required for her own minimum essential needs was, above all else, the decisive factor in the war. It was this alone that enabled British, Canadian, Australian, Indian and South African troops to take their place on the Western Front; it was this alone that rendered possible the conquest of the German colonies and the operations in Gallipoli, Mesopotamia, Palestine and the Balkans. By British ships one-half the American troops brought to Europe were carried. Without the assistance of British tonnage the European Allies could neither have supplied their armies with the material of war, nor fed their people, nor obtained the requisite fuel for their railways, ships and essential industries. Whether we look at the magnitude of the achievement, or at the appalling waste involved in the diversion from productive to destructive activities, there is no more significant fact in the history of the war."

Then the war ends, and the story tells of the condition of our shipping when the Armistice was arranged: pre-war conditions had been hopelessly disturbed and a new situation had to be faced and many problems solved ere the normal could be restored. Overseas volunteers had to be returned to their homes, our own millions of men to be brought from the various war fronts together with equipment of all kinds; nor was the least urgent business the transport of food-stuffs and raw materials for the maintenance of our own industrials and those of Continental Europe, both our allies and late enemies. This part of the story is not by any means the least informing. Did the Allies act harshly in the matter of feeding and supplying a defeated Germany? To what extent was German reluctance to release her own tonnage a contributing cause? All these points are dealt with impartially and merit study.

The slump followed the boom, and world trade, hampered by fluctuating exchanges and uncertainties, is taking long to resume its pre-war volume. Many obstacles, new or increased, connected with tariffs and vested interests, many created by the war, all tend to lessen the volume and retard the machine. The whole picture emphasises the need for understanding and practising economics.

Mr. Fayle has indeed succeeded in the task he set himself. He has produced a valuable account of one of our greatest industries, showing where it stood in 1914, what occurred during the war, and how post-war conditions are being faced as the new situation develops. The whole account is carefully documented and the conclusions drawn are reliable and impartial. It may safely be said that for anyone who wishes to make a study of the Economics of Shipping, Mr. Fayle's book should prove of immense help, and, in the necessary preliminary work, smooth away many difficulties. The book is wisely conceived, and in its carrying out documents and facts are mainly allowed to speak for themselves.

A. W. KIRKALDY

University College,
Nottingham.

Industrial Combination in England. By PATRICK FITZGERALD, B.Com., Assistant Editor of the *Statist.* (Sir Isaac Pitman & Sons, Ltd. Pp. 230. 10*s.* 6*d.*)

THIS book is most opportune. Since the issue of previous publications on the development of industrial combination and the so-called "Trust movement" in British industry, the whole position has undergone a series of very varied changes, and now has a relation to public opinion quite different from that at the end of the nineteenth century. The new attitude of mind is due largely to the increased information now available for examining the whole situation scientifically in the light of facts and a greater accumulation of experience. A great advantage in the author's case is that he has drawn liberally upon the stores of business experience and statistical data and devoted special attention to viewing the situation in the practical aspect of published accounts when dealing with certain individual combines.

The purpose of the book is to show how far competition has been suppressed, to examine from a practical point of view the structure, achievements and price policy of the various groups as they have actually occurred; and finally, in the light of such practical examination, to consider tentatively the advisability of some form of Government supervision, assuming the latter to be desirable or necessary, and to judge legislation by such standards.

It is evident that industrial combination, or the Trust movement, is no longer a "tendency," but an established feature of English industrial organisation. This is quite clear from both

the extent to which combines have been formed over the whole range of industry and also from the long and stable business record of some of the better known combines. Thus, it would be impossible to regard, say, the Bradford Dyers' Association, the Coats' Combine, Lever Brothers, or the "Big Five" of banking as other than established forms of English industrial organisation.

Mr. Fitzgerald has paid special attention to the question of profits earned by individual combines, considering the net earnings in all cases, not merely by themselves or in relation to ordinary capital, but expressed as percentages of the resources employed (that is, the total assets less liabilities), subject to necessary adjustments where pre-war and post-war results are compared. Judging by this indicator, the level of prices of the products of the trustified industries and the general operation of the trusts in relation to the consumer in both the home and foreign markets, Mr. Fitzgerald reaches a broad conclusion that despite the fact that large sections of English industry have now definitely passed under the control of the combine, the moderate price policy hitherto pursued by most of them makes unjustified any grounds for alarm.

A striking feature of the book is the comprehensive character of the survey of British industries achieved by the author. No significant agreement in restriction of price or production has escaped his attention, however small or localised its operations. Interesting in this respect is the examination of associations in the clayware trades, although the production of bricks, drain-pipes, pottery, greystone mortar, does not suggest danger from the Trust movement. It is comforting to the "houseless" to note that, although the home productive capacity with an insignificant proportion of exports is probably twenty times greater than the present volume of imports, the latter in respect of the number of bricks imported has risen from 535,000 in 1922 to 159,000,000 in 1925. In regard to the meat combines, the significant fact is brought out that, whilst combination is often impeded by foreign rivalry, the meat combine is an important example of combination, being a direct result of it; the original object being a united front on the part of English enterprises better to oppose the great American combines. It is also significant to note that even in the case of the efficient and powerful English meat combines there stands the testimony of the Royal Commission on Food Prices (1925), that ". . . there is nothing sinister about this organisation; it performs, on the contrary, a service of great public utility, . . ." and that, apart from the full supply of all

information, which the appropriate Government committee might require as impartial observer, a system of State Control would be likely to " . . . accentuate the difficulty of obtaining supplies and even increase the ultimate cost to the consumer."

From the general reader's point of view, the chapters of main interest are probably those dealing with matters concerning which the layman has latterly been most informed, largely thanks to the activities of the Press, namely, the Oil Combines (Chapter XIX), the Railway Combines (Chapter XXIII), the Banking Combines (Chapter XXIV).

In the case of the oil combines, the opinion is expressed that despite the industry being pre-eminently the sphere of large-scale organisation, and despite the gigantic resources of the few firms controlling it from extraction of the raw material to retail distribution, the course of events has shown the utter inability of the combines to prevent prices from falling, even to uneconomic levels, or to resist the stimulus to competition afforded by a slight upward trend in prices.

The relation of the State to industrial combination is dealt with specially in Chapters XXI and XXIII, dealing respectively with the Rubber Restriction Scheme and the Railway Amalgamations. In both of these cases the paradox is that the State, so far from violently denouncing and severely penalising restriction of competition after the model of the U.S.A., actually instituted and really enforced the combination of previously competing enterprises. This is a new landmark in industrial combination; as the author points out, the Rubber Restriction Scheme " admits the principle of Government co-operation in the suppression of excessive competition . . . restriction by Government edict. . . ." The political reverberations of the Rubber Scheme even into international politics are as significant as the relative failure of both projects to attain their objects in spite of the powerful aid of the State, launched vainly against economic forces. The compulsory fusion of the railways in 1922 is regarded partly as the anticipation of an inevitable process of evolution, and partly a deliberate recognition by the State that unification was desirable on the condition or assumption that the fruits of monopoly could or should accrue to the community.

The recent history of the railway fusions suggests that the economies of large-scale organisation, even where favoured by physical and economic conditions, are often more difficult to realise in practice than appears to be the case theoretically. In fact in Chapter XXIV, dealing with the Banking Combines,

the frequently stated opinion of various banking officials is confirmed that, admitting a probable increase of stability—due to greatness of size—the rise in overhead expenses and the severe cutting of profits have probably doubled the period as compared with pre-war days required for a new branch to pay its way. The "Big Five" have also shown a greater tendency to expand credit rather than to restrict it; thus there appears even in this important direction to be little danger of that to which those in charge of the leading banking institutions state themselves to be uncompromisingly opposed—a financial cartel or "a money trust."

From the point of view of the reader interested in special aspects of the problem, Chapter IV on the Iron and Steel Industry, Chapter XII on the Non-Ferrous Metal Trades, Chapter VII on the Chemical Industries, and Chapter XIII on the Engineering Trades, are probably the most interesting. Thus in these industries are operative just those various factors upon which the growth, development and efficient operation of the combine have been agreed generally to depend. In them are present the factors of necessity for integration of related businesses, or so-called vertical combination, keen foreign competition in home as well as neutral markets, international agreements, circumstances of large capital, localisation of industry, protective tariffs, patent rights and the conditions making up what Professor Levy in 1909 termed the favourable "conjuncture" for industrial combination. It is interesting, therefore, to note that in his survey of even these industries, the author arrives at the following conclusions:

As regards the iron and steel industries, competition still predominates, despite the system of domestic price regulation in many sections, based in none upon monopoly; that foreign competitors either in finished, semi-finished or raw materials, and general price conditions in international markets, are dominant factors operating definitely against the successful emergence of any monopolistic combination in Great Britain. Somewhat similar circumstances apply in the non-ferrous metal trades, aggravated by the wide fluctuations of price; and any control of domestic associations over prices is restricted by actual or potential foreign competition even though sometimes circumscribed by international agreements.

In the engineering trades, more particularly the heavy electrical and cable-making sections, the necessity for large organisations, the increase in demand, the more honourable observance

of gentlemen's agreements as regards work tendered for, and the value of patents have assisted the operation of domestic associations to control output and prices; yet even in these industries the fall in prices and the increase in imports do in fact prevent the English firms from exercising a dominant influence on the course of prices. This is true now despite the different opinion of a Government committee of inquiry in 1920 recommending public supervision and control.

In the chemical industries attempts to regulate prices and output have long been a notable feature, aided largely by the integrating combination of firms in the three primary sections of alkalis, acids and tar distillates, and the relations between home producers and the consumers as regards preferential conditions of supply. Despite this advantage and certain quasi-monopolistic rights as regards patents and local raw materials, the conclusion is that, whilst international agreements affect foreign competition, this vital safeguard against monopolistic policy is always available.

It is a matter for criticism that the woollen and worsted sections of the textile industries have not been dealt with more fully. The page so devoted to these industries is hardly commensurate with their importance and with the early and relatively successful development of many combinations in these industries. The same criticism applies to the treatment of cotton industries, wherein proposals for combined action for restriction of output, price stabilisation and short-time organisation have received an immense amount of attention from those actively engaged in the industries, the Press, and the public, and above all the economist.

The arguments dealing with the efficiency of the Trust in respect of economies peculiar to the Trust, and those appertaining to large but non-monopolistic organisations are on the lines of Marshall's exposition of the "representative firm," and the limitations to its growth as regards maximum efficiency. Time and the emergence of new facts of business and industrial experience in this instance again appear to have confirmed that far-seeing economist's opinions. The author of the present publication emphasises more strongly how the risks arising from centralisation in buying, selling or production are immensely magnified in their disastrous effects when an error is made owing to the scale of operations involved; nor does it appear that the Trust has altogether realised the saving of the "economic wastes" of competition in advertising, distributing, economical production and the fullest utilisation of capital, etc.

There is nothing new in the original impulse of the Trust,

the almost natural desire of producers and traders to suppress or control competition; but it has yet to be shown, despite even the present careful analysis, that any have achieved permanently a practical monopoly. There are fundamental economic factors relating to elasticity of costs, elasticity of demand, the direct and indirect competition of substitutes, the formation of new enterprises (especially when demand is rising or trade improving), foreign competition, the decreasing impediments of concentration to new competitors. In this respect a very suggestive criticism is put forward on Professor Levy's view that the concentration of production furnishes "the foundation stone of English cartels and trusts," seeing that the more recent evidence suggests that the net advantage gained by expansion beyond a certain point is debatable.

GEORGE R. CARTER

Kartelle und Konzerne. Von KURT WIEDENFELD. (Berlin and Leipzig: De Gruyter and Co. Pp. 83.)

IN this small volume Dr. Weidenfeld has published the original of his monograph for the Geneva Conference, together with a lecture in which the "present problems of industrial organisation" are handled in more detail. It will suffice, therefore, to deal here with the latter. In direct opposition to some other writers, he describes the vertical structures as Trusts, making this the German name for them. We need not argue about words. His purpose is to balance the strength and weaknesses of such combines, and to controvert the opinion that the future is with them rather than with the Cartels.

The advantages claimed for the so-called Trusts are (*a*) concentration of production in the most economic works and laying up in reserve of the others, (*b*) the less variability of *costs* of lower products when integrated than of *prices* when they are purchased, (*c*) smoother transfers from stage to stage, (*d*) more direct balancing of the capital requirements of establishments than when the banks intervene.

On the other side of the account are to be reckoned (*a*) the burden of the idle capitals, (*b*) the fact that the higher works, from whose point of view the question is regarded, do not get the low prices they otherwise would in times of depression, if they bought their supplies, (c) loss of the power, which "free" finishing producers have, to throw back on lower producers the effects of glut in their own markets.

It is obvious that some of these arguments woud have to be modified if the appropriateness of such organisations to the national economy *as a whole* were made the issue of their further development.

He contends that the relatively small field in which vertical Trusts have been successful is due to a number of difficulties which are in general traceable to internal diversities which beset the desired unity of control. One cannot exactly adapt the quantities of product on each level to each other so as to be free from markets for purchase or sale of remainders. Or, again, the want of correspondence may be qualitative, as when the final product is special and the lower ones massive, so that there cannot be a real unity of control from the top. The result is that the only unity is one of *Kapitalpolitik*, whereas economy depends on a large degree of *factual* as distinct from legal unity, together with a fair amount of freedom for the heads of the individual works.

These considerations would clearly apply in stronger degree to the less systematic integrations or Concerns, where *Kapitalpolitik* plays a still larger part, a point whose historical verification Dr. Wiedenfeld has let go without comment.

The Cartels, though a limitation of independence, are based on two strong reasons. First, the costliness of getting rid of the weak sellers by the method of competition and bankruptcy. For "the weakness of the weak becomes itself their strength against the strong." They become reorganised on a new capital basis, a resource which, for reasons of *prestige*, the large businesses are reluctant to employ. Second, the Cartel frees the large producer from marketing problems, so that he can give his attention to the inner organisation and technique which are his proper function. "The non-Cartelled producer is more of a slave to the market than the Cartelled producer is to the other members."

These advantages are strikingly argued. But the crux is price policy. On the analogy of railway and money rates, where stability is taken as an obvious *desideratum*, Dr. Wiedenfeld holds that the Cartels must be judged by their practice of both moderation and stability. The conjuncture is to be ruled, not merely followed. Neither the highest nor the lowest possible is to be allowed, but, apparently, each industry for itself is to practise the *Anpassung* in order to prevent its own disruption into the strong and the weak. This is more fully discussed in Dr. Wiedenfeld's larger work on *Gewerbepolitik*, and it raises,

especially in respect of fundamental industries, the whole issue of quickly adapted as against fixed prices as methods of controlling the conjuncture. But everyone will thank the author for this concise and lucid statement of main issues.

D. H. MACGREGOR

The Conditions of Industrial Peace. By J. A. HOBSON. (London: Allen and Unwin. 1927. Pp. 123. 4*s.* 6*d.*)

THE fifth and last chapter of Mr. Hobson's book contains his contribution to the problem of how to secure industrial peace. The other four chapters are mainly occupied with an analysis of the existing industrial system on lines which will be familiar to readers of his earlier works. We have, for instance, his division of the national income into subsistence and surplus, though there is less stress laid here than in his *Industrial System* on the distinction there drawn between the productive and the unproductive surplus. Over-saving and under-consumption once more make their appearance, as well as his thesis that taxes on cost all tend to be shifted on to surplus. The book covers a good deal of ground, and numerous topics are touched upon—such as the population question, the competition of sweated foreign workers, the growth of trusts and cartels, family allowances—which seem only to have a somewhat indirect bearing on industrial peace. Take the question of population, for instance. The limitation of population, Mr. Hobson thinks, is an essential condition of industrial peace. But it is not apparent why a small population should be more peaceful than a larger one, if industrial conditions and relations between employers and employed remain unaltered.

Mr. Hobson rightly insists on the growing interdependence of industries, and he more than once points out that a dispute, or rise or fall of wages or other costs of production, must in greater or less degree affect the interests of other trades or of consumers. This is the main ground of his plea for more Government interference with the object of securing industrial peace.

The State, Mr. Hobson thinks, must assume a different attitude towards three types of industry. Essential services, where competition is impossible, must be publicly owned. The dangerous tendencies of trusts, cartels and other forms of combination in important though not vital industries must be checked by a highly graduated tax on excess profits. In the case of trades where the interests of consumers are safeguarded by effective competition, the State should confine itself to securing minimum

conditions, to providing emergency subsidies when trades are temporarily damaged by causes outside their control or prevision, and to providing equitable tribunals for settlement of disputes between employers and workers. A limited industrial self-government, the author says, is essential, and the first step is the establishment of a National Industrial Council representative of workers, capitalists and consumers, endowed at first with purely advisory powers. Mr. Hobson, however, looks to arbitration as the most hopeful means of securing industrial peace. Resort to arbitration is to be compulsory, but not the acceptance of awards. No public relief is to be given to those refusing to accept awards. Their dependents may be relieved, but only under such conditions as prevent the relief affording support to the recusants—a rather difficult regulation to administer! Employers who insist on closing down their works because they cannot afford to comply with an award can apply for a subsidy from the portion of the social surplus which is to be allocated to this purpose. On the face of it the treatment to be allotted to recalcitrants seems somewhat unequal. It is further suggested that a Court of Appeal should be set up.

Mr. Hobson of course knows the case against arbitration, and in the earlier part of his book puts this as well as it can be put. It may, however, be doubted whether his argument in support of arbitration will succeed in convincing those who doubt the possibility of persuading the workers to give up the right to strike or the employers the right to lock out, who are sceptical about equitable and impartial tribunals set up to try issues which are often non-justiciable, and who can see no adequate sanctions for enforcing awards. However, Mr. Hobson realises that his proposals will not be particularly palatable to the Trade Unions, to the type of business man who is determined to run his business in his own way, or to those who hold that no solution is possible without a change of heart amongst both employers and employed. He is nevertheless undaunted.

H. SANDERSON FURNISS

Kapitalismus. Eine begrifflich-terminologische Studie. VON DR. RICHARD PASSOW. (Jena: Gustav Fischer. 1927. Pp. v + 136. 7 marks.)

ONLY one English economic treatise having claim to scientific rank bears the word "Capitalism" on its title page—Mr. J. A. Hobson's "Evolution of Modern Capitalism." There is no article on "Capitalism" in Palgrave's *Dictionary of Political*

Economy—even in the new edition. On the Continent, however, the influence of Karl Marx has established the term not merely in the newspapers, but in the recognised economic text-books and the specialist periodicals. In Germany, for instance, "Capitalism" has been the subject of learned and laborious interpretation on the part of her most eminent economists.

Is the term "Capitalism" suited to the purposes of Economic Science? For the politician or the journalist it is admittedly convenient. It is suffused with feeling. It is delightfully vague. The aim of Professor Passow's Essay is to advocate its abandonment by the economist.

The term "Capitalism" fails to describe adequately the new, the essential, the peculiar feature of modern economic life. Moreover, not one of the attempts to define the term exactly has been successful. It is used in different senses by different writers; sometimes in different senses by the same writer. Some writers (*e.g.* Mr. Hobson) shirk the difficulty of definition.

In Germany we hear not only of "Kapitalismus," but of an immense horde of compounds of the word—all indefinite and ambiguous—"Zunftkapitalismus," "Feudalkapitalismus," "Frühkapitalismus," "Hochkapitalismus" and "Spätkapitalismus." The last three are terms which owe their popularity to Professor Sombart. Their scientific value is doubtful. They lack precision. According to Professor Sombart, the period of "Hochkapitalismus" opened about 1760 and came "suddenly" to an end in 1914. We are now living in the period of "Spätkapitalismus." According to Friedrich Naumann and Johann Plenge we are living in the period of "Hochkapitalismus," which dates only from the twentieth century and received a powerful stimulus from the Great War.

Closely allied to "Capitalism" is the "Capitalist spirit." The use of this phrase—originally introduced by Karl Marx—is to-day very fashionable. Yet a moment's reflection will show that it means nothing more than an acquisitive spirit, a spirit dominated by desire for the maximum amount of gain. These characteristics are quite independent of any ownership of capital or any using of capital.

Professor Passow's Essay is learned, comprehensive and forcible. It is valuable as a work of destructive criticism which stimulates clear thinking.

J. Lemberger

The University,
Belfast.

The Ethics and Economics of Family Endowment. By ELEANOR F. RATHBONE. The Beckley Social Service Lecture, 1927. (London: The Epworth Press. Pp. 118. Paper 1*s.* 6*d.*; cloth 2*s.* 6*d.*)

IN this Lecture, Miss Rathbone has restated the case for Family Endowment as an argument from economics, from ethics, from justice and from foreign example. The argument under the first three of these headings is, however, a single texture, and the main difference from her pioneer work on the subject is the vehement eloquence with which she makes her plea afresh. She is not tolerant of criticism, and does not really help her case by throwing about such epithets as "blindness," "blatant egotism" and "arm-chair critics." Nor is it a good thing to arrogate scriptural authority for one's own side of difficult economic proposals. It was rather her business to answer Professor Gray, and she has not done so, and the omission is significant. Those who think that the problem of child maintenance is not best met by cash payments for each child born are not real Philistines on the poverty argument, and must not be made phantom ones. They will grant to Miss Rathbone an intense earnestness and conviction, and an enviable power of exposition.

Is it right to describe the family of five as an "old impostor," while making use of it for the sake of an effective typical diagram (p. 9), and also for the creation of a definite number of "phantom" wives and children (pp. 24–6)? or to argue that economists have been "vague" about the size of the standard family, when it is your own case that there is no standard size? Is it passable criticism to describe as "blatant egotism" (p. 53) the consideration that children are a cause of pleasures and satisfactions as well as of expense? and to suggest that this "coolly sets aside" the fact that "children themselves are separate human beings, each with an individuality of his own and a potential value for Society"? To say that family life brings satisfactions is important and relevant to some aspects of the argument, and it was necessary to say it because its oversight had been notable. It does not mean that children are nothing more than this, and why should it be necessary to point this out?

The difficult question of the birth-rate is re-argued. The inference suggested by the statement that higher standards of earning go with lower birth-rates is that Allowances would on the whole lower that rate. If anyone were told that a certain nation had instituted Allowances *because of the condition of the birth-rate,*

would he naturally infer, even if he were a trained vital statistician, that the birth-rate was regarded as too *high?* It is not a question of fearing a "devastating torrent of children" (p. 116), but of the balance of a number of economic and psychological influences acting on the age of marriage and the size of families, *because Allowances are varied with the size of the family.* Where three children would otherwise have been born, will only two be born, if the family has been made ten shillings a week better off at that stage? Where only two would otherwise have been born, will a third be born because of this subsidy, plus a further prospective subsidy of five shillings? These questions arise on each level of income, and are independent of the existing differences as between the levels. While it seems likely that the highest and the lowest levels will, for different reasons, be least affected, there is a large middle area where the above influences will have to find a balance. *On the whole,* are the critical cases not mainly those where foresight now imposes limitation? Take, for example, the cases where two children have been born of the same sex; there is a strong desire to have a son or a daughter, whichever is missing. Also, it is in respect of the first child that much of the heavy outlay of family life is incurred. The question is not academic, it decides how far there is danger that cash allowances might defeat their purpose.

In this country the strongest current among supporters is for a national system of endowment. It is natural that the Labour movement should accept the offer of so large a transfer as is involved, whether based on children or on any other criterion. The issue may not, however, turn on the amount of expense, since economy and expense are not opposites; but rather on the alternative of cash payments in respect of children, the application of which to children cannot be ensured, and of a reconstituted service for dealing with child distress when, where, and in so far as its occurs.

D. H. MACGREGOR

Family Endowment: a Critical Analysis. By ALEXANDER GRAY. (London: Ernest Benn, Ltd. 1927. Pp. 135.)

PROFESSOR GRAY'S attacks upon Family Endowment schemes take the form not so much of criticising the schemes themselves as of pointing out that the principles upon which these are apparently based would, if pushed to their logical conclusion, lead to absurdities or worse. Family Endowment, for instance,

embodies the principle of distribution according to needs. But "a society which consistently endeavoured to distribute its wealth according to needs would be a nightmare, rich only in futile idealism, more flagrantly chaotic and unjust even than that in which we now groan." Or again, Family Endowment gives the State a new interest in the quantity and quality of children that are born. "The woman thus becomes the servant of the State for the purpose of giving birth to children." In these conditions it is the duty of the State to see that the children are "brought up in a manner becoming its children," and to replace the mother by another guardian if she is unfit to bring them up herself (which, by the way, the State does already in extreme cases); and as this solicitude cannot logically stop at physical care, the next step will be for the State to remove children from homes in which it considers that there are "seditious" influences.

Since the reduction of any idea to its logical conclusion is usually much the same thing as its reduction to absurdity, this kind of argument is not very satisfying: its use gives the reader the impression that the author desires to score debating points, and is as likely as not to detract from the value of his more serious and practical criticisms. Moreover, since many of the principles to which Professor Gray refers are to some extent recognised in existing practice, it is always possible to reply that the silly or dangerous implications of these principles are already with us, quite independently of Family Endowment.

Of course there is plenty of confusion in the ideas of the Family Endowers. Some of the most useful parts of this book are those in which the author illustrates the very different character of the objects which supporters of the proposal in one or other of its forms are seeking to promote. He calls attention, and with justice, to the confusion between those who are thinking simply of a lateral redistribution and those who want, over and above, to link up Family Endowment with vertical redistribution. He might indeed have discussed this further, for it affects very materially the type of scheme which is appropriate. It is one thing to make a given wage fund go further by altering its distribution between the members of the group of wage-earners into whose possession it already goes. It is another thing to treat bearing and rearing children as a public service, the cost of which should be met from the taxes, and distributed over different taxpayers in accordance with whatever principles are held to be equitable in regard to the distribution of taxation generally.

Professor Gray is alarmed at the cost of any proposal to graft

a general scheme of Family Endowment on to our present social insurances. But his argument on this point seems to suffer from the very confusion to which he takes exception in the proposals that he criticises. The intention of Family Endowment *of this type* is simply to change the distribution of existing wages between different wage-earners; *i.e.* to effect "lateral" redistribution. If this intention is realised it is beside the mark to write about depressed trades struggling vainly, and sheltered trades successfully, to pass on the cost to the consumer. If the intention is not realised, that does not affect its merits. The desirability or otherwise of lateral redistribution of a given type is unaffected by the fact that in trying to bring it about people may effect a vertical or a different lateral redistribution by mistake: unless it can be shown, as Professor Gray does not appear to have shown, that the mistake is inevitable.

The best part of this book is the chapter on Family Endowment and the birth-rate. What with the possibility of earlier marriages, and of changes in the standard of living of different groups, this is certainly some of the most treacherous ground upon which the advocates of Family Endowment have to tread. Professor Gray points out some of the more dangerous quagmires. As to the influence of Family Endowment on family life and the position of women, Professor Gray is pessimistic and alarming; but what alternative is there for one who regards marriage and freedom as "incompatible blessings"?

BARBARA WOOTTON

Economics and Human Behaviour. By P. SARGANT FLORENCE. Psyche Miniatures. General Series. No. 9. (Kegan Paul, Trench, Trubner & Co. 1927. Pp. 117. 2*s*. 6*d*.)

IT is a commonplace that many people have something to say which will fill a booklet or pamphlet but not a treatise. The signs of a revival of the pamphlet are welcome. At the same time there seems to be a tendency on the part of authors of pamphlets to think that, because a publication is short, it must at all costs be lively. They strain after lightness of touch and appear not infrequently to be saying to themselves: "This is not a serious treatise; it must be brightened up." Mr. Sargant Florence, as an author of booklets, is not really touched by this line of criticism. He is genuinely and refreshingly entertaining, though one fancies at times that he can be detected in an attempt to keep it up.

The sub-title of the booklet is " A Rejoinder to Social Psychologists," and the theme is the extent to which the criticisms by social psychologists of the psychological assumptions of economists are valid. Two principal lines of criticism can be distinguished. It is complained, in the first place, that economists generalise too much from a few fundamental characteristics of human nature and too little from observations as to human behaviour derived from statistical and other data. Dr. McDougall, for instance, considers that economists have neglected the extent to which men are found from observation to be susceptible to the arts of the advertiser, and that in consequence of neglect of this kind many of their generalisations are not well founded. These attacks may or may not get home. Whether they do or not, the psychologist has no special status in the ranks of the attacking army. The business man or any other member of the general public is quite as much entitled to complain as the psychologist. Indeed it might be urged that many social psychologists should be the last persons to employ this particular line of criticism. They have not in general been distinguished for the use of that form of procedure for the neglect of which economists are blamed. With regard to this particular issue Mr. Sargant Florence ends his booklet with a strong plea for " statistical methods of investigation into economic questions." " The possibilities of statistical measurement are scarcely realised by most economists, who seem content to reiterate old deductions and are too busy or too bored to explore the way of exact observation or to use the wealth of statistical material put at their disposal by Government departments, Royal Commissions, German and American Universities, and some few research institutes." One may wholeheartedly agree with the emphasis which it is desirable to place upon research of this nature and at the same time be of opinion that in such a passage as this the author shows signs of falling into the temptation of providing that vivid touch which is thought to be required of the writers of pamphlets. Is not the truth something of this kind ? Only a fraction of the research of this nature which is urgently required is in fact undertaken, but this is chiefly owing to lack of qualified economists and statisticians. Those qualified mostly turn their attention this way nowadays. Where failure is most apparent is perhaps in teaching rather than in research. Political scientists invariably require students to study constitutions and their working in some detail. It is remarkable to what a small extent students of economics are required to study the social and economic structure of this and other countries.

It is also complained by the social psychologists that the economists make certain psychological assumptions for which there is no evidence, if indeed they cannot be shown to be false. It is here that the psychologist has a right to be heard. But is it a fact that the economist makes definite psychological assumptions? It is true, no doubt, in the case of certain writers at least up to a point. For the most part, however, what economists are trying to do is to base their constructions upon certain objective forms of behaviour commonly observable among men. Men do often behave as though they weighed alternatives and balanced things one against another—as if, in fact, they went through a process of rational calculation. It is upon fundamental facts of this kind that, as Mr. Florence says, economists construct their case. So far as the economist is concerned, it is not essential to know what the true nature of the mental process is. What appears as calculation may have its basis in reason or instinct. While making a convincing defence of the economist somewhat on these lines, Mr. Florence seems to grant more to the psychologist's case than is necessary. Mr. Florence will have it that the economist "cannot argue without assuming some sort of psychological theory." The important fact with which Mr. Florence would presumably agree is surely that the economist can argue without committing himself to any definite psychological theory and that his arguments do not therefore lose their validity when older psychological theories give place to new. Economists do frequently, though for the most part unwittingly, appear to commit themselves to particular theories owing to an unfortunate choice of words. Thus the psychologists are enabled to achieve verbal scores and to appear to prove that economists are devotees of outworn and long-discarded theories.

When Mr. Sargant Florence turns to consider the psychologists themselves he has no difficulty in showing that there is no common ground between them. Is not Dr. McDougall, the critic of economists, himself now heavily beset by his colleagues of a younger generation? What would the latter now be saying of those economists who at the bidding of the older generation of social psychologists had attempted to find room for the acquisitive and other instincts which were at one time so neatly labelled and set out in a row? But the essence of the whole matter is that psychological assumptions, in the strict sense, are unnecessary for ordinary economic generalisations. Men do something which one may call calculating, however much pain may be caused to certain psychologists by the use of this terminology,

and from that fact much may be deduced. It is perhaps more true to say that economists make ethical assumptions than that they make psychological assumptions, and that in so far as they do so they are open to serious criticism. Perhaps Mr. Sargant Florence will take up this theme some day. In any case all readers of the second of his booklets will hope for a third. He practises what he preaches. No one could accuse him of pedantry, and his firm grip of the reality of social problems makes his discussions of academic matters alive and arresting.

A. M. CARR-SAUNDERS

Descriptive Economics. By PROFESSOR R. A. LEHFELDT. (Oxford University Press. World's Manuals. 1927. Pp. 112. 2*s.* 6*d.*)

PROFESSOR LEHFELDT has written a most useful addition to our supply of introductions to economics. The experience which has prompted him to write this book, to which he refers in the preface, is that it is well to go through a description of the plain facts, unmixed with theory, before embarking on analysis; and it is an experience which has probably been shared by a good many teachers of elementary economics. The difficulty of the method is to avoid the dullness inseparable from facts that are wholly unadulterated with anything that can be called theory; and to indicate in an interesting way the phenomena which call for theorising, without embarking into theoretical discussions forthwith. Professor Lehfeldt appears to have succeeded remarkably well in this respect. His method has been to approach his subject by a short descriptive chapter on the main industries, or groups of industries, in a modern industrial community, and to call attention to the essential features of their organisation and methods of production. We begin, for instance, with two chapters on farming, which include references to the various methods of tenure in use in different parts of the globe, to the story of technical improvements in agricultural methods, and to the merits and demerits for various types of cultivation of large and small, pure or mixed farms. In the following chapters the broad features of mining, of manufacturing industry, of transport by land and sea, and of the business of finance are similarly sketched. Naturally the treatment is slight, in a volume of less than 120 pages, but it is simple and clear, and—great but none too common merit!—it should not leave the student with the feeling that when he has finished the book he now knows all about the subject.

Professor Lehfeldt's little book may be specially useful for

adult students who often experience great difficulty in grasping abstract ideas at the beginning of their acquaintance with a new subject. Though the author does not intend it primarily for university students, it may be useful also as a corrective for those who incline too readily to deal only with abstractions.

The only criticism of any importance that one is tempted to make against the book is that a certain pleasure in what he describes occasionally leads the author to gloss over the weak points of the industrial machine. On the subject of the functions of middlemen, for instance (p. 77), his cheerful generalisations seem a little hasty.

BARBARA WOOTTON

Elements of Economics. By C. R. FAY, M.A. (New York: The Macmillan Co. 1926. Pp. xviii + 631. 7*s*.)

THIS is an all-inclusive volume by an American author—not by the C. R. Fay we know. It might as well have been called "Concentrated Essence" as "Elements." The author adheres to the formal division of his subject-matter into the departments of Consumption, Production, Exchange, Distribution and Public Finance. Within these he deals with everything from Communism to Real Estate Speculation, from Child Labour Laws to Marginal Utility. There is a certain amount of theoretical matter, always well illustrated; but information on questions of fact greatly predominates. In fact the book may well serve not only as a text-book for the American High School boys for whom it is written, but also as a book of reference for any who desire up-to-date information on economic and commercial conditions in the U.S.A.

As so often happens in a text-book, the standard of difficulty which the book maintains varies very greatly from section to section, especially in the theoretical chapters. For instance, the subject of interest is introduced by a very simple illustration of the loan of a tennis racket at a week-end party. This seems to presuppose a rather different standard from that to which the reader must have attained in order to master the conclusion, reached after a very rapid argument, that "the price of any agent of production tends to equal the value of the marginal product of the entire supply of that agent." Similarly we leap with startling suddenness from the homely details of personal and domestic economics into the technicalities of the investment market.

It is but just to add, however, that these transitions are

facilitated by the exceedingly generous supply of tables, diagrams and illustrations with which the book is packed. Photographs of bills of exchange; reproductions of entries in the household butcher's book; tables of the profits realised by American corporations; illustrations of joint supply in the shape of a shadowy ox, every one of whose parts, down even to the gall-stones, is labelled with a note of its industrial uses—these are some of the aids which Mr. Fay employs to great advantage.

One or two points call for special notice. Mr. Fay has departed from the usual practice in introducing the subject of saving into the section which deals with consumption. The discussion is interspersed with a certain amount of moral exhortation as to the virtues of thrift, which some of us may find somewhat repellent. But there is a good deal to be said for treating saving as a branch of consumption. It is also worth mentioning that Mr. Fay has succeeded in explaining "comparative costs" in a way which ought neither to do violence to the pupil's instinctive common-sense, nor to make him feel that a great fuss is being made about nothing at all; which is unusual.

On certain debatable questions the author is carefully impartial, even to the extent that the seven arguments in favour of protection are balanced by an equal number on the other side. But there are other matters, the single tax and socialism, for instance, which are honoured only with a list of "cons" but no "pros."

There are one or two corrections which the author may like to make in subsequent editions. There seems to be Irish blood in this sentence (on p. 332): "If given time, any sound bank can readily pay its obligations on demand. . . ." On p. 411 it is not quite accurate to say that the "Board of Trade and committees appointed by it are given wide powers to impose protective duties under the Safeguarding of Industries Act of 1921." On p. 419 "consumption" appears to be a misprint for "production."

Altogether this is a good book of its kind; but the kind is decidedly unattractive. If it is really used as a *text-book* which will be the starting-point for sermons by stimulating teachers it may be very useful. The danger is that the pupils may read the texts under a mistaken impression that they are the sermons.

BARBARA WOOTTON

Morley College,
London.

The Income Tax in Great Britain and the United States. By HARRISON B. SPAULDING. (P. S. King & Son. Pp. 320. 12*s*.)

IN this volume Dr. Spaulding provides an intensive comparative study of the present-day working of the Income Tax in the two countries.

After devoting some thirty pages to an outline of legislation and the systems as they stand in relation to each other, he proceeds to describe and discuss sectionally their application to the tax-paying body. Attention is given to such topics as Tax Rates, Bases of Computation, Tax Collection, Exempt Income, Double Taxation, and Treatment of Wasting Assets. The method employed is to give a detailed description, to which is joined a certain amount of economic analysis, but which is dominated nevertheless by careful attention to legal intricacies. This necessarily involves a highly specialised discussion of the tax considered *per se*, and in consequence there is no mention of such matters as comparative yields, and how these are affected by changes in policy and rates. Nor, of course, is there a discussion of reasons actuating policy. Even so the discussion of national perspective in taxing would have been reinforced by information showing the relation of income to other taxes imposed by the two countries. Again, a chapter on the distribution of the income-tax burden, with particular reference to American conditions, would have provided a useful complement to the report of the Colwyn Committee.

Yet within its circumscribed limits, the work may profitably be consulted by those who wish for a detailed, comprehensive, and clear account which is supplementary to the general works on public finance, and to the special writings of Professor Seligman and others. It is valuable also as gathering together under one cover what is only otherwise accessible in scattered volumes and reports. In particular the splitting of the tax as between individuals, partnerships, companies, and special contributors such as life insurance companies, although accompanied by needless repetition, is clearly set out. There are also informative sections showing the more liberal treatment in America of wasting assets; the benefits of taxation at the source (as opposed to the more subjective and legally harassing American practice); and in vindication of the British policy of neglecting casual and capital gains. As Dr. Spaulding demonstrates, it is in this last respect that the two systems are most distinct: for while it is consistent

with American thought to view capital and aleatory gains in the light of their value in terms of income, yet the following out of this conception to its logical end is provocative of endless and wearisome complications. In addition these unmistakably obstruct equity, since it is administratively impossible to devise regulations covering all differences affecting individual cases, especially, for example, in respect of fair valuations.

J. SYKES

University College,
Exeter.

L'Organisation Permanente du Travail. By E. MAHAIM. (Paris: Libraire Hachette. Pp. 155.)

THE International Labour Organsiation which was created by the Treaty of Versailles has raised up for itself a host of expositors, but none so well qualified as Professor Mahaim. Not only has he been intimately associated with its work from the beginning, but, as one of the special commission which advised the supermen of Paris, he was one of its original progenitors. If anyone, therefore, is competent to throw light on the dark places of Part XIII of the Treaty it is he, and in this book he amply demonstrates this capacity. Undoubtedly Professor Mahaim has written the authoritative book on his subject. It is one of those accomplishments of Latin precision which make Englishmen green with envy. There can scarcely be any point of real importance in his rather arid subject which it does not cover adequately. Yet it is never for a moment stodgy or uninteresting. The elegant and pellucid paragraphs flow serenely on, and it is not until the end of the chapter that we realise that we have been plunged in such minutiæ as *e.g.* "*Le bureau de dactylographie, multigraphe et Ronéo,*"—and have not been bored!

But with all this it must be confessed that it leaves a certain sense of disappointment. Professor Mahaim has confined himself severely to description. He nowhere seriously undertakes a critical evaluation either of the structure or functions of the organisation he is describing. No doubt this lay outside the scope of his intentions, but it is a work which badly needs doing. The machinery in itself may be excellent. But is it really appropriate to the tasks it has to perform? Is there no overlapping with other organisations? Is no effort expended which could not be better utilised elsewhere? These are questions to which, perhaps, answers satisfactory to the friends of the present

organisation may readily be given, but it is well that they should be recognised and answered. Even the most friendly observer may feel a certain hesitation to conclude that *no* time is wasted, that *nothing* is redundant when, in Professor Mahaim's own account of the proceedings of the sixth conference, he learns that a fourth of the programme was devoted to a discussion of the "*utilisation des loisirs des travailleurs!*" What were the remarks of the Chinese delegation on that occasion, one wonders?

Still more regrettable, when one considers the wealth of learning and experience which Professor Mahaim would have brought to his subject, is the absence of any consideration of the proper limitations—the proper extent is, perhaps, the more sympathetic term—of the functions of international labour legislation. In the past practical economists have always deemed it their duty to investigate the functions proper to national authorities. No doubt they did not always achieve conspicuous success in this direction—although here it is important to distinguish clearly what they actually said from what they are alleged to have said by modern commentators with a thesis to establish—still they made the attempt. Nowadays it is even more important that they should devote some consideration to the functions proper to international authorities. No doubt there will be some who will regard it as desirable that such authorities should do everything, just as others will regard it as desirable that they should do nothing. But to those who do not range themselves whole-heartedly behind either Mr. Cook or Sir Ernest Benn in matters of economic policy, it will probably seem likely that the truth is more complicated than this. And if this is so, then it is in the interests both of science and of true internationalism that more light should be brought to bear on the subject as soon as possible.

LIONEL ROBBINS

New College,
Oxford.

The Widening Retail Market and Consumers' Buying Habits. By HORACE SECRIST. (Chicago and New York: A. W. Shaw Co. Pp. vi + 186. 1926.)

THIS volume is a study of material collected by the Bureau of Business Research of the North-Western University, Chicago, in co-operation with students and instructors of a number of other Universities in the United States, with the object of ascertaining

how far modern advertising, easy means of transport, and extension of buying opportunities, have extended the areas which hitherto comprised the retail markets surrounding important centres for the distribution of certain articles of general consumption. The special branch of retail trade selected for investigation was men's tailoring and outfitting; and the plan adopted for obtaining the information required was to collect from 2,413 University students forms duly filled in under careful instruction setting out the facts concerning the purchase of their clothing and that of their fathers. The problem had previously been studied from the traders' point of view. Tables were then compiled designed to exhibit the extent to which purchasers bought elsewhere than in their own cities, as well as many other important factors bearing on the distribution of custom in respect of area. The conclusion is reached that competition now is " a proposition involving towns and communities where it used to be an affair between local stores," and that " the areas for retail trading centres overlap, and such overlapping transmits competitive effort from district to district, thus linking up the country into a single market."

The interest of this competent work for students of economics in this country is twofold. In the first place it bears witness to the important position in American business of what is there called " market analysis," and to the fact that as much serious and detailed study has now to be devoted to selling problems as to manufacturing problems. While there is no doubt that British business is improving on the marketing side, and that large firms and industrial groups are beginning to do for themselves what is done in the United States by University Schools of Business Administration or Bureaux of Business Research for all, we still have much leeway to make up and much hesitancy to shed in the sharing of information with one another. It certainly would not be an easy matter in England to obtain facts of the kind so freely supplied by American business men to research students in Economics.

Again, studies such as this show " in what way the tendencies in the market work out and how our statements of them need to be modified in view of the complexities and disturbances of actual life." They are thus a reminder that the utility, cost or sacrifice, and competition of the elementary text-books are only a basis for a first approximation to an understanding of the forces in the market—a fact that is often overlooked by our younger teachers, and the neglect of which gives such an impression of unreality to

pupils who are seeking to build up a science of business on a foundation of economic theory.

J. G. SMITH

The University,
Birmingham.

The Economics of Small Holdings. By EDGAR THOMAS. (Cambridge University Press. Pp. ix + 132. 4s. 6*d*. net.)

WHEN considering this little work it is necessary to bear in mind the qualifying sub-title, which describes it as "A Study based on a Survey of Small-scale Farming in Carmarthenshire." Curiously enough, in the preface, Mr. C. S. Orwin has to complain that the misleading title of a previous publication on the same subject by another member of the Oxford Agricultural Economics Research Institute conveyed a false impression, with the reverse result that a wide-flung inquiry was deemed to be merely of local importance. Mr. Thomas is to be congratulated upon the capable manner in which he has carried through his investigation of an area not remarkable in any way for its homogeneity and by no means insignificant in size. His material is almost wholly social and statistical, and his interests lie in the present rather than in the past. Thus, problems connected with the distribution of farms, their method of tenure, the previous occupations of their holders, their lay-out and the financial results obtaining predominate. Any one familiar with the intricacies of costing agricultural undertakings will turn with particular interest to those sections where an attempt is made to assess the value of a smallholder's own labour and that of his family. "Wages per unit of labour" (the latter having been converted into "men equivalents") are here shown in their relationship to the various types of farm, and the effect of size, soil, climate and altitude is demonstrated. Whilst, of course, nothing is "proved," the results are decidedly interesting, and, if the actual number of fully investigated samples is necessarily small, the preliminary work was extremely thorough, for Mr. Thomas examined all the rate-books of the county in order to compare their contents with the figures contained in the Ministry of Agriculture's Statistical *Reports*; personal inquiry was also pursued when the sociological aspects of the inquiry were under investigation. The final summary reveals the author to be in possession of a well-balanced judgment and immune from the danger of hasty generalisation. He is wisely content to point out certain apparent tendencies,

thus, in effect, leaving the data he has collected to form a not unimportant part of the mass of material which, in a decade or so, will be available for a thorough study of the rural economy of these Islands.

The supplementary evidence, adduced from certain continental sources, adds to the value of the book, which is well written, and, needless to say, well got up, being provided with a list of references and an index. It is in the former section that the only obvious mistake can be found, for, under the heading "Switzerland," is placed the Helsingfors publication *Smabruket i Skandinavien.*

J. A. VENN

Capitalism is Socialism: an Industrial System of Political Economy. By J. TAYLOR PEDDIE. With a Foreword by GILBERT C. VYLE. (Longmans. 1926. Pp. xxi + 336. 7*s.* 6*d.*)

As far as I can discover, there is no connection between the title of this book and its contents. Nowhere has the author attempted to prove that Capitalism is Socialism—even "with economic adjustments." In his Preface he states that he has "developed an industrial economic system as opposed to the classical," and this he certainly has done, though his system is not particularly new. The book is really a vigorously written plea for Protection. The author, however, seems to be aware that the word is somewhat out of fashion at the moment, and he describes what he wants as "a system of national economy." This is to be coupled with mass production, which he very oddly calls "the theory of quantity production." The argument is an old one: protective duties all round, with much more Imperial Preference. Mass production will then be made possible. Mass production means lower prices. This means the foreigner pays, and so all will be well.

The book is almost entirely formless; it rambles on from subject to subject without any apparent reason for their order of treatment—or for treating some of them at all. For instance, after a chapter on the National and International Division of Labour, Mr. Peddie without any warning plunges into a discussion of the Proposed Levy on Capital in France. But, before he is half-way through this chapter, he has glided off to the rights and wrongs of the repayment of our debt to the United States. Then follow chapters on the Growth of Capitalism in America, the Growth of Credit in America and its Limitation in Great

Britain, the Need for a Prosperous Agricultural Industry and Stabilisation of Prices, and the Law of Supply and Demand. Then comes a chapter of seventy pages on the Quantity Theory of Money. The quantity theory of money is variously described as "a vast hoax and gigantic swindle," "a wonderful scheme," and "a device." It is also said not to exist at all. The law of supply and demand, too, is "a vast hoax and a gigantic swindle," and there is no such thing.

Mr. Peddie is wearisomely diffuse, and he has a tiresome habit of repeating *ad nauseam* such phrases as "United we stand, divided we fall"; "Profits are the reward of enterprise, and loss is the penalty of failure"; "All things that exist were born in conception." This last somehow sounds almost improper, but perhaps I have not here quite grasped Mr. Peddie's meaning.

H. SANDERSON FURNISS

Livelihood: Papers on the Study of the Economic Factor, for Social Science Students. By J. ALEXANDER GUNN, Professor in the University of Melbourne. (Melbourne: Massina & Co. 1927. Pp. 232. 10*s*. 6*d*.)

THIS volume contains the second part of a work which is to be entitled *Human Society*; the other sections have apparently not yet been published. *Livelihood* is in part an elementary economic text-book, written on somewhat old-fashioned lines, the first three chapters covering Scope and Method, Value, Production and Distribution. Chapters IV, V and VI deal with Trade Unions, Trusts, Protection, Unemployment, Insurance, Money, Shares and Taxes—a somewhat curious jumble of subjects. Chapter VII (which comprises one-fifth of the whole book) discusses Contemporary Economic Movements, beginning with Socialism and ending with the International Labour Office.

It will be seen from this outline that the arrangement is decidedly chaotic. This, however, may be partly due to the origin of the book. It was built up on that very insecure foundation—courses of lectures (delivered to Professor Gunn's students in Melbourne), and was first issued in the form of pamphlets. The pamphlets may possibly have been of some use to Professor Gunn's students, but his wisdom in accepting the suggestion that he should bring them out in book form may be doubted. And what a book form it is! Miserably printed, horridly got up, and expensive. And all it contains is already easily accessible in numerous well-known text-books.

There is nothing very much to object to in Professor Gunn's

statement of economic facts and theories, though many of his statements are, perhaps of necessity, so much condensed that they often contain little more than half-truths. The author could perhaps hardly be expected to treat satisfactorily the difficult subjects of Money, Banking and Credit in thirteen pages. Nor can Taxation be very thoroughly discussed in twenty-two pages, especially if five of them are devoted for some unexplained reason to the "Payment of Non-Commercial Workers," and another eight to the Capital Levy.

If the pamphlets had been more carefully revised before they were reproduced in this form, a good deal of repetition would have been avoided. Chapter VI, for instance, contains almost word for word several passages which appear in Chapter II. The book is in places very carelessly written, and is so badly punctuated as sometimes to make it difficult to be certain that the author's meaning has been grasped. As an example I quote the following, with reference to Godin's well-known profit-sharing scheme at Guise: "After the signing of the armistice at Guise, the shade of old Pére [*sic*] Godin seemed to recall the world back from war to peace" (p. 209). Professor Gunn in his first chapter insists on the importance of impartiality on the part of economists. But he by no means follows this precept himself. The book is full of his own opinions on the actions of the well-to-do and of the workers, on capitalism and socialism, to take only a few examples. Some of his criticisms are to the point, others somewhat superficial. The educational value of the book would have been enhanced had its readers been left more free to form their own opinions. The excellent bibliographies at the end of each chapter should be very useful.

Economics has reached a stage when it is doubtful whether a really satisfactory small text-book covering the whole ground can be written. Certainly this attempt is not a very great success.

H. SANDERSON FURNISS

Democracy under Revision. By H. G. WELLS. A Lecture delivered at the Sorbonne on March 15, 1927. (The Hogarth Press. 1927. Pp. 47. 2*s*.)

THERE is not very much in this lecture which will be of interest to economists *quâ* economists. The economics is, in fact, confined to one or two criticisms of Socialism and of the Distributive State, to pointing out that Big Business is inconsistent with Democracy, to urging the necessity for a "stable money basis

of world-wide validity," and to an insistence on the importance of establishing "enough political unity to control and direct the distribution of raw products, employment and manufactured goods about the earth."

Mr. Wells's main thesis is "that we are in the beginning of an age whose broad characteristics may be conveyed some day by calling it the Age of Democracy under Revision." "The magic," he thinks, "has gone out of the method of government by general elections." As to the future, he asks, "What is there to prevent a great politico-religious drive for social and world unity taking hold everywhere of the active and adventurous minority of mankind—that is to say, of all mankind that matters—even quite soon?"

By Democracy Mr. Wells suggests is meant, morally, that "All human beings are of equal value in the sight of God, or legally, All men are equal before the law, or practically, One man's money is as good as another's." Like many other critics of Democracy, Mr. Wells does not seem to have asked himself whether anywhere or at any time a Democracy has been established which fulfils these conditions. May there not be something to be said for trying to realise true Democracy before setting out on the task of revision?

H. SANDERSON FURNISS

Capital for Labour. By W. FRANCIS LLOYD and BERTRAM AUSTIN. (Fisher Unwin. 1927. Pp. 142. 3s. 6d.)

THIS book, by the authors of *The Secret of High Wages*, reviewed in the JOURNAL for September 1926, is introduced with appreciative forewords by a representative both of Capital and of Labour—Mr. W. L. Hichens and Mr. Arthur Pugh. There are two prevalent views with regard to the future of what, for want of a better name, is known as Capitalism. On the one hand, it is maintained that Capitalism has been found wanting and has broken down, and that it must therefore be replaced by some other system. On the other hand, it is held—and this view is strongly supported by the authors - that Capitalism must be conserved and developed. The writers believe that "we have now arrived at the greatest economic crisis in our history" (p. 18), and the earlier chapters are devoted to proving that both our industry and commerce are in a very bad way indeed.

Chapter I contains on the whole a good review of the industrial

situation, though one which is somewhat exaggerated and over-alarmist. Tables giving in percentages the comparative increases in the exports of various countries, even when they show that the exports of other countries have increased faster than our own, by no means tell the whole story as to the relative prosperity of the countries compared. For instance, there is no reason for becoming agitated because the exports of Czecho-Slovakia, which heads the table, have increased by no less than 53 per cent. in the three years 1923 to 1925. But apart from this, the consideration of exports alone does not go far towards helping to form a valid judgment. Nor can figures showing the increase of imports be taken as satisfactory evidence of the decline of industry without reference to many other sets of facts. Indeed, the book contains many sweeping generalisations which often contain even less than half-truths, and these are often made to carry much more than they will bear. I quote the following as examples. "It is possible to reduce prices, raise wages, and actually improve quality at the same time" (p. 115). This can no doubt be done in some cases, but surely not in all. "If we could compete successfully with imported manufactures we would increase our home market by no less than 30 per cent." (p. 120). Would we? "If the 12,000,000 workers of this country were each able to spend 5*s*. a week more, the sales in our home market would be increased by no less than £3,000,000 a week" (p. 120). Possibly, but all the other results of such a change in the distribution of income are entirely ignored. "It must never be forgotten that in the early days of industry the worker always had the choice of fending for himself or becoming an employee of another master" (p. 57). To adapt a remark of Carlyle's on Rousseau's *Social Contract*, "the date of those 'early days' is not fixed by Mr. Lloyd and Mr. Austin." Whether the following contains a half-truth or not I am unable to decide: "In the British iron and steel industry . . . with one exception there has only been one strike in the last forty years" (p. 109).

The authors have an interesting chapter on "A Director's Responsibility," in which the choice of directors and managers is discussed. They rightly point out "that the well-being and even the livelihood of thousands of workers and shareholders in Great Britain are entirely in the hands of persons who are not the best qualified for such positions of trust" (p. 52). They suggest that shareholders might play a larger part in the choice of directors. The shareholders are to "overhaul their boards of directors, eliminating the unqualified once for all, and without

fear or favour" (p. 50). This is excellent, but how are they to do it?

I am afraid Mr. Lloyd and Mr. Austin are over-optimistic with regard to many of their projects. Their main hope for the future seems to lie in turning every worker into a capitalist, and this is to be accomplished by means of profit-sharing coupled with payment by results, on which last great stress is laid, though "payment by results without profit-sharing denies the worker a deferred reward to which he is in equity entitled" (p. 79). The difficulties of applying the principle of payment by results throughout industry do not seem to be fully appreciated. In Chapter IV a somewhat elaborate profit-sharing scheme is outlined, by means of which it is claimed that, if all went well, the workers could before long obtain complete control of their industries. The scheme is ingenious, though not entirely new, and it might work if those concerned were willing to work it; and there are a great many other "ifs" to be got over. Mr. Lloyd and Mr. Austin are not in favour of what they term "paternalistic profit-sharing," that is, profit-sharing of the ordinary type.

While the authors are anxious to conserve and develop Capitalism, they are fully alive to its weaknesses on the side of both Capital and Labour. For instance, they criticise both employers and employed for the practice of "ca' canny." They also realise and sympathise with the causes of Labour's discontent. They appear to me to be unduly pessimistic as to the present, and over-optimistic with regard to the realisation of the future as they see it. However, one cannot but admire the vigour and enthusiasm with which the book is written. Its keynote is more energy and a greater spirit of adventure in industry. This all must wish to see, but surely Mr. Lloyd and Mr. Austin cannot really mean what they say when they write: "Commerce, let us hope, is the only great adventure left to man" (p. 35). If they do, and if they are right, the world is going to be a very dull place indeed.

H. SANDERSON FURNISS

The Road to Prosperity. By SIR GEORGE PAISH. With a Foreword by SIR JOSIAH STAMP. (London: Ernest Benn. 1927. Pp. vii + 154. 8vo. 6s. net.)

SIR GEORGE PAISH'S compact survey of the economic situation of most of the chief nations of the world in this little book is authoritative and opportune. A "general review," as Sir

Josiah Stamp points out in a "Foreword" characteristically acute and pithy, is followed by separate reckonings for the various belligerents in the recent war, and "then, after an examination of the Plea," lately signed and issued, bearing several influential names coming from many countries, "methods of remedy are put forward." In the review and succeeding computations, though the figures are formidably grave, and have been got and are handled by a statistician of deserved credit and long and wide experience, it may seem to some that Sir George "piles on the agony"; and it is to be noted that Britain still, he estimates, has not inconsiderable, though much diminished, foreign investment. He is not, however, entirely pessimistic. He commends our own early bold action in returning to the gold standard and praises our prompt proud funding of our indebtedness to the United States; and, similarly, he gives appropriate emphasis and warm approval to the acceptance by Germany of the Dawes plan. And perhaps the chief novelty and main worth of the calculations made from his arresting balance-sheets are to be discovered in his careful discrimination between the experience and destinies of different countries. A bright future for Poland, for example, is not unlikely; Russia is in reality self-sufficing, and no right judgment can be formed or trustworthy forecast made unless distinction is drawn, for instance, between Belgium and France, and Germany and Great Britain. Such attention to particulars imparts assurance to a general view, and allows us to endorse Sir Josiah's tribute to Sir George's capacity for "seeing the wood without climbing the trees," though, "probably," the introducer adds, "no fellow-economist would subscribe to every single statement of fact" nor "endorse every emphasis or support every detailed remedy."

When we turn to remedies, as the book is prompted by, and designed to lend assistance to, the "so-called Bankers' Manifesto," we should expect to find special stress laid on protective tariffs among those "restrictions upon European trade" for the removal of which the plea was made. Sir George himself would not, we suppose, question the "soft impeachment" that he is a "convinced free-trader"; and the parallel drawn between the "manifesto" and the historic "Petition of the Merchants of London" of 1820 did not recommend it in some quarters. But many, if not most, "tariff reformers" would concede that tariffs may be both excessive and inopportune, and would declare that a large area within which free trade obtains is preferable to a

smaller. It is a matter of common admission that a melancholy sequel has shown that the breaking-up of Austria by the peace treaty, politically obligatory as it may have seemed or been, brought a calamitous economic consequence in permitting or encouraging hostile tariffs impeding commerce between the severed sections of what was before a single whole—a region without internal barriers wherein trade freely went on.

It should be added that Sir George Paish admits also variety to his medicine chest as he discriminates in his diagnosis of disease. He exhibits the need and demonstrates the opportunities of railway construction, and he handles in the sane temper and strong posture we should wish the vexatious problems of debt solution and reparations. It is pertinent and instructive to press, with him, in these connections, the essential unlikeness of the return from the investment of capital in productive enterprise to the discharge of indebtedness or payment of reparation on account of wealth that has been wasted or destroyed. This pregnant consideration must or should throughout be kept in mind. We feel nevertheless that he is "putting the cart before the horse" when he proposes that Great Britain should act independently in cancelling the debts owing to her, and that it would be an additional advantage if the United States followed the example. No doubt Sir Josiah Stamp sets rightly in the front as the first of three factors "dominating the international situation," the question whether "America will go on indefinitely exchanging real wealth for promises, in a ledger, of real wealth to be paid back after the crack of doom," and happily there are distinguished Transatlantic economists who have not approved of the pose and policy of their Government in debt-reimbursement. We need have no hesitation in concluding that the verdict of history will not be indulgent to the assumption of the rôle of Shylock, or of Brutus, by our American cousins whatever justifications may be now advanced. Economically infelicitous, that part seems to us morally disgusting, and the cloud of incriminating witnesses increases day-by-day.

L. L. PRICE

Towards Industrial Recovery. By HUGH QUIGLEY. (Methuen, 1927. Pp. 191. 4*s.* 6*d.*)

THIS book may be called a study in post-war competition. It attempts to estimate the influence on the relations of the

chief European competitors—principally France, Germany and Great Britain—of the main events of post-war economic and political policies. The author begins by describing the course of British financial policy since the publication of the Cunliffe Report; to this policy he ascribes much importance and takes great exception. From Britain he passes to the Continent and sketches the industrial aspects of the history of the Ruhr invasion and the introduction of the Dawes plan, bringing together some useful statistics as to the recent development of German industry. Succeeding chapters deal with the rapid industrial expansion which has been taking place in France and the strengthening of the ties between French and Belgian heavy industry.

The purpose of the book is, naturally, to inquire what are the conditions precedent to successful British competition. The author's answer, sketched in the last chapter, is, chiefly, closer horizontal combination by the formation of trusts or central selling and purchasing agencies, closer association of finance and industry and the establishment of a council like the German Reichswirtschaftsrat. But whether or no these are the right lines upon which to proceed, it is difficult to say that Mr. Quigley really makes out his case. He is, for instance, a great disbeliever in vertical, as opposed to horizontal, combination; but his objections appear to rest only on the ground that vertical combinations flourished in Germany during the period of inflation and have fallen to pieces thereafter, and that some vertical combinations established during or immediately after the war in this country have since shed certain of their members. Instances are given of vertical combinations which have thus dissolved, but little is said either to discover the reason for this or to estimate the importance of these instances in relation to the whole extent of the industries concerned.

Indeed Mr. Quigley's view seems occasionally to be curiously inverted, a fact which raises a doubt whether he has adequately thought out his underlying principles. We learn, for instance, that "Lorraine and Luxembourg are areas dependent on demand from a much greater market outside of them." They are. The problem is to create and maintain "a strong source of demand for such a surplus," which, we are told, Germany did in old days by linking up these areas with the Ruhr. But now, argues Mr. Quigley, "if Lorraine and Luxembourg were removed from German jurisdiction, then the problem, as far as Germany was concerned, was greatly simplified; the productive capacity of the Ruhr alone could be extended. . . . The Ruhr as a great

iron and steel producing area was bound to derive considerable advantages from the disappearance of Lorraine." Which being interpreted seems to mean that, instead of attempting to develop the Ruhr heavy industries to compensate for her grave losses in Lorraine and Luxemburg, Germany is thankful to be rid of the latter areas with their unmarketable output in order to be free to concentrate upon the Ruhr, whose development possession of those areas had made impossible. Surely something is upside down here?

On the Dawes plan also the author has some rather curious views. His general attitude seems to be that the effect of the scheme has been to give a great stimulus to the organisation of German industry, and to increase her competitive power, which indeed may be the case. But it is a little difficult to follow how the issue of the industrial debentures, forming part of the plan, "represented a direct financing of German industry by the State to the tune of £250,000,000."

This book, in fact, while it contains some useful and illustrative facts, does not seem to have a sufficiently definite and consistent argument resting upon a sufficiently comprehensive survey for the reader to get the most out of such facts. The weakness is particularly marked in a chapter on Industrial Fluctuations, which consists largely of a list of quotations from the works of eminent economists on the subject, such as might be transcribed from a student's notebook.

BARBARA WOOTTON

English Local Government. VII. *English Poor Law History.* Part I. The Old Poor Law. By SIDNEY and BEATRICE WEBB. (Longmans, Green and Co. 1927. 21s. net.)

THERE exists no adequate history of the English Poor Law. Indeed, the necessary materials for such a history have been only to a small extent collated or even dug out of old parish and court records. It is easy enough to write, as Sir George Nichols wrote, what is virtually a history of the various Acts of Parliament relating to poor relief, and of the various projects of reformers. But this, as Mr. and Mrs. Webb point out, is a very different thing from a history of the Poor Law itself; for, except for a brief period mainly in the early seventeenth century, Poor Law administration remained constantly, up to 1834, in the hands of a huge number of almost wholly unco-ordinated local bodies, and its actual working can only be estimated by a study of their doings. This is what

Mr. and Mrs. Webb, with the materials they have been able to make available, have attempted in this volume—on the whole, with very successful results. They do present a picture, such as no one has presented before, of the actual working of the Poor Law system between the collapse of the early Stuart attempt at centralisation and the new central control instituted by Chadwick and his friends in 1834.

The book, indeed, goes back much further than this; and its account of the experiment of the early seventeenth century is one of the best things in it. Its account of the Poor Laws up to the end of Elizabeth's reign is by comparison scrappy—indeed, the authors only pretend to deal with the earlier period in a slighter and more introductory way. When they get past the period of the Civil War, into the period of unfettered local control by the squirearchy, they abandon for the most part the chronological method of treatment and write less a history than a general essay on the methods of poor relief during the following two centuries. This essay is excellent in itself; but the effect of it is to obscure the lines of historical development, and, in particular, to disguise the effects of changing economic conditions on the fluctuations of Poor Law policy. There is too little here either of general historical background or of appreciation of the interworking of economic and political factors. For example, the effects of the great growth of the "domestic system" in the late seventeenth century, and of the Napoleonic Wars from 1793 are largely obscured by the method of treatment which Mr. and Mrs. Webb have chosen to adopt. This leads to some curious results. Thus, it is hardly legitimate to quote, and draw inferences from, the figures of Poor Law expenditure in the late eighteenth and early nineteenth centuries (p. 154), without any accompanying reference to the huge price fluctuations of the period. Nor is it even correct to attribute the rise in prices, when it is mentioned elsewhere (p. 172), mainly to bad harvests, or to refer to the growth of Outdoor Relief in the industrial districts from the later seventeenth century without relating it to the growth of "domestic" production for a fluctuating foreign market.

These criticisms, however, are not meant to detract from the real excellence of Mr. and Mrs. Webb's book, which is immeasurably superior to anything that has been written before about Poor Law history. Its greatest merit is that it makes sense. The authors show the State's care for the problem of the poor as arising, save to a limited extent in the early seventeenth century, not from any secularisation of the mediæval ideal of Christian charity, but from

the desire and necessity for the "removal of a nuisance" which threatened the order and due subordination of the realm. This appears especially in the treatment of "vagrancy" and in the law of settlement—on which Mr. and Mrs. Webb have really admirable chapters; but it also runs through the entire local administration, only tinged with a growing humanitarianism as the eighteenth century advances.

It is, on the whole, a gloomy and savage picture of "man's inhumanity to man" that Mr. and Mrs. Webb are compelled to draw. But no one can question its substantial accuracy, or the care with which the available material has been collated and evaluated. We have now, if not an adequate history of the Poor Laws, which can hardly be written until far more work has been done upon the local records, at any rate a brilliant and convincing essay which embodies an enormous amount of well-digested information. The second volume, carrying the record from 1834 to the present day, will be eagerly looked for. The "New Poor Law" of 1834 was in its administration essentially different from the old. How different was it in its underlying ideas? Did not Chadwick, do not most Guardians even to-day, tend to regard the poor rather as a "nuisance" to be removed than as the sign of a social disease demanding wider measures for its prevention?

G. D. H. COLE

University College,
Oxford.

Labour Migration in England, 1800–1850. By ARTHUR REDFORD, M.A., Ph.D. (Manchester University Press. 1926. Pp. xvi + 174. 15s.)

THIS book has grown out of a thesis submitted for a Ph.D. degree, and from some points of view it has perhaps suffered by its origin. It is a learned work, detailed, and packed with references. But it is not attractive from a literary point of view, and in fact it is rather dull reading—though this impression may, of course, be due to some defect in the reviewer. If the object of historical study be to throw light on the present and to provide some guidance for the future, the book is not particularly successful, for the author's comments on the results of his research are very rare, and he hardly ever brings out the bearing of his subject upon the social history even of the fifty-year period he is studying, or its relation to other branches of knowledge. One is continually inclined to ask, What is the point of it all? In the chapter on

emigration, for instance, he points out that some study of overseas emigration is necessary as a background to the study of internal migration. But he never makes clear the bearing of the one upon the other, except in the case of the Irish, for whom assisted emigration was provided to prevent them from migrating to England. Again, he says that the study of migration " becomes a key to the understanding of many problems which remain obscure so long as the factor of human mobility is left out of account " (p. vi). But it never becomes very clear what these problems are.

These defects are too common to pieces of research prepared as theses for degrees, and it is a pity that work of this kind is so often unattractive and so lacking in suggestiveness. The author might say that he was only providing a quarry of information in which others could dig, and as a collection of information and a piece of research the book is admirable. Dr. Redford appears to have made good use of an enormous mass of material, and the work must have caused him an immense amount of rather tedious labour. The statistical maps are excellent. It might be wished that the study could have been carried further, for there seems no good reason for stopping at 1850.

The main points which the author brings out as illustrated by the history of migration are that the changes brought about by the so-called Industrial Revolution were evolutionary in character and slow, which is now fairly obvious, and that there was no movement of population on a large scale from the south and east to the north and west, as is sometimes vaguely imagined. The movement to the manufacturing centres, Dr. Redford points out, was from short distances, and it diminished in volume with the increase of distance, while a large part of the migration from the south and east was absorbed in London. These conclusions seem to have been very well foreshadowed by Marshall in a passage in his *Money, Credit and Commerce*, quoted by the author at the end of the last chapter (p. 164).

I doubt very much whether the author is right in thinking that the migratory instinct is as strong among men and beasts as among the birds of the air (p. 1). At any rate, the amount of migration which he describes as taking place in the first half of the nineteenth century hardly seems to support his opinion.

H. SANDERSON FURNISS

Staat Recht und Freiheit. By HUGO PREUSS. (Tübingen: J. C. B. Mohr. Pp. vii + 588.)

HUGO PREUSS was primarily a historian with his interest centred in constitutional and administrative systems; but being a historian with one eye always on the present, he was necessarily also a practical politician—a politician of the critical but constructive type. He criticised from a background of historical knowledge, but he constructed with a clear understanding of what might or might not be practicable in the present. This miscellaneous collection of articles and speeches, republished after his death by his widow, illustrates the kind of man he was. In articles ranging over a period of seventeen years, including those of the War, we find him, undaunted, pressing again and again with reasoned emphasis for what he held to be the fundamental necessity of the German State, namely reform of internal and local administration, especially in Prussia. Prussia is the crux of the matter, and in the latest article on this subject (published in October, 1925, entitled "Germany and Prussian Administrative Reform") he is appealing to Prussia to help towards making national unity secure by bringing her system of local administration into accord with the fundamental reconstruction of her State constitution. It is the relations between local and central government that interest him especially. He wants democracy, but the State as a whole cannot be truly democratic without a basis of democratic, responsible local government. The municipalities and communal authorities should be given more responsibility, and be relieved from the incubus of local bureaucratic authority acting parallel to their own. As long ago as 1808, the date of the famous Prussian *Städteordnung*, the idea of building up a democratic State out of the self-government of local bodies existed, but it failed to bear fruit. In 1848 a democratic element was superimposed upon the Prussian State at the top, but local administration was left in a condition which was characterised as being "half unfinished building and half already ruins." But in 1925 Preuss could still point out that the two incompatibles—democratic local communities and bureaucratic local administration controlled from above—were still left standing, as at the beginning of the nineteenth century, "in unsolved disharmony side by side and opposed to each other." This article, read in conjunction with earlier writings on the same subject, reveals how profoundly disappointed Preuss must have been when the upheaval of 1919 failed to result, within his lifetime, in any

fundamental reform of this antiquated system. He was more fortunate as regards the Weimar Constitution itself. Although in many respects it did not follow the lines he recommended, yet he had the satisfaction of using his knowledge and exercising his influence in the creation of the new Constitution, which, whatever its defects, was certainly, from Preuss' point of view, a great improvement on the old one. Although a Liberal and a critic of socialistic theory, he was no enemy of the socialists, and Ebert could call upon him to help in the work of constitutional reconstruction. In the fateful days of November 1918 it must have been something of a triumph to be able to produce from his study drawer a ready-made draft constitution drawn up in 1917, which could soon be remodelled to suit the altered circumstances. This draft of 1917 is published here for the first time. The volume also contains Preuss' memorandum on the general articles of the draft constitution of January 3, 1919, and his speech in defence of those articles before the National Assembly the following month. Students of the German Constitution and the controversies in connection with it will be interested also in the articles reprinted under the heading "The Work of Weimar," beginning with one published only three days before the Armistice, appealing for a "People's State" (*Volksstaat*) and not a "perverted Authoritarian State" (*verkehrte Obrigkeitsstaat*). The collection of articles entitled "During the War" will perhaps be of greatest interest to psychologists. At the moment of collapse (October 26, 1918) Preuss is appealing to readers of the *Norddeutsche Allgemeine Zeitung* to keep their heads and to be thinking about the best means of improvising a democratic parliamentary system. A week before, in an address to the Commercial High School of Berlin, he is pointing out how the great development of internationalism in the years preceding the War, had itself been a cause of intensifying the War and discussing the possibilities of a League of Nations. In 1917 he was writing on the possibility of establishing a democratic and parliamentary form of Government for Germany, and in 1916 he was discussing in the *Internationale Rundschau* popular beliefs as to the origin of the War. He was also writing during the War on his favourite topic of administrative reform, but these articles are grouped in a chapter to themselves regardless of their date. For students of constitutional and administrative systems it would have been more convenient if Preuss' writings on those subjects, including those concerned with the Weimar Constitution, could have been collected in a smaller book. But the volume as a whole, together with Dr. Theodor

Heuss' introduction, is not intended as a book for students; it is a contribution towards the biography of a man who, without any great political following, was yet called upon, in a time of greatest need, to apply his talents and his knowledge to the service of his country and to exert an important influence upon its history.

S. SANGER

La Vie Économique de la France sous la Monarchie Censitaire, 1815–1848. Par HENRI SÉE. (Paris: Libraire Félix Alcan. 1927. Pp. 191. 20 *fr.*)

PROFESSOR HENRI SÉE has, for the most part, confined his attention in the past to the economic history of France prior to the Revolution and to regional studies of Brittany. He now offers us a provisional survey of the first half of the nineteenth century in the hope that it will encourage others to undertake the research necessary to enlarge our present knowledge of the period. Two chapters are devoted to the developments in agriculture and industry, one to social conditions, one to the growth of working-class organisations, and a final one to improvements in the means of communication, the extension of foreign trade, and the growth of credit facilities. A useful bibliography is appended.

If the chapters are set side by side it becomes clear that there was comparatively little economic progress in France under the Restoration. In agriculture, although the Revolution had effected a redistribution of property, it had made slight impression on the methods of cultivation. Figures are given, indeed, to show that the redistribution of property was not so complete as is sometimes supposed (p. 15); large estates were still important, and it remained true that the greater part of the land did not belong to those who worked on it. France was subject to serious shortages as under the *Ancien Régime,* poor harvests leading to widespread distress. As to industry, Professor Sée concludes that "l'organisation industrielle de 1815 à 1850 a le même caractère que dans la période napoléonienne" (p .49). The "petite industrie" continued to predominate, partly, he thinks, because of the lack of credit, and partly because high protection perpetuated antiquated methods of production. Public opinion was also hostile to the introduction of machinery. So the progress under the Empire recorded in Charles Ballot's *L'Introduction du Machinisme dans l'Industrie française* (1923) was not maintained. It was most marked in the textiles—particularly cotton—where the problems arising out of the employment of

women and children began to attract attention. The *Société industrielle de Mulhouse* demanded the regulation of the hours of labour of children in 1827. But the "factory movement" in France made slow headway, and it was not until 1841 that a Factory Act was passed. It applied to establishments employing more than twenty persons, limiting the hours of children; but, since the manufacturers succeeded in defeating the proposal that paid inspectors should be appointed, the law was largely a dead letter.

Under Louis Philippe statistics prove that there was fairly steady progress. Crops improved. Wheat increasingly took the place of rye, potatoes were more widely grown and fallow was eliminated. New breeds of cattle and sheep were introduced from England. In the north the textile and metallurgical industries became well established, particularly as railways were developed. Still the country can hardly be said to have experienced an industrial revolution by the middle of the century. A contemporary could then seriously maintain that large-scale industry was artificial and depended on the maintenance of protection. There was little class consciousness among the workers. Although combinations were forbidden by severe laws and workmen had to have their wages entered in their "livrets," their agitation took a political rather than an industrial form. It is true that *compagnonnage*, with its absurd rites, survived, but it hardly provided a basis for collective action. Friendly societies were numerous and, as in England, they tended to become trade societies ("sociétés de résistance"), the funds of which were spent in furthering disputes with employers. The suggestion of Flora Tristan, that there should be a general union of the working classes (p. 136), does not seem to have evoked any response. Nor did the teaching of Saint Simon and Fourier have any marked influence. The Socialist movement among the workers had to await the stimulus of Karl Marx.

The English reader will find a number of comparisons and contrasts with our own history spring to mind as he reads the book. He may not follow the argument (pp. 40–41) that the decay of domestic industries was a condition of progress in agriculture. Nor is it easy to reconcile the statement that the sliding-scale of 1819 and subsequent corn laws had little effect (p. 20) with the assertion that "le régime de l'échelle mobile, instauré en 1819, porte un coup mortel au commerce des blés" (p. 149).

J. F. REES

*The University,
Birmingham.*

A Monetary History of Ireland. Part I, "Ancient Ireland." By Rev. DOM PATRICK NOLAN. (King. Pp. 219. 5*s.*)

IT is well recognised nowadays that primitive institutions, far from being simpler, are usually more complicated than those of civilised man. The quotations from ancient documents in this book amply illustrate the complexity of primitive currencies.

Unfortunately, the author has never really grappled with his material. There is little attempt either at scientific arrangement or at systematic criticism and interpretation. Numerous passages refer to payments being made or goods being valued in terms of cows, women or sacks of corn, as well as in terms of gold and silver, in the form of ornaments as well as of coins. But we are invariably told that it is doubtful whether the reference is to a physical medium of exchange or to a money of account. Dates are often left extremely vague. We jump from King Seadna Ionnaraidh (? 928–909 B.C.) to Brian Boru (tenth century A.D.) without any statement of the dates of the intervening quotations within the interval of nearly 2000 years (pp. 77–83).

It is rather remarkable to find that some of these primitive forms of currency survived up to the seventeenth century. Annual payments seem really to have been stipulated in terms of cows at that time. But the quotation given for the eighteenth century (p. 110) is from a *will*, and the bequest in the form "I order for my niece Molly ten big cows" does not necessarily imply the use of the cow as a unit of value.

It is a defect (perhaps in the available material itself rather than in the book) that practically no light is thrown on commercial dealings. Fines, presents and tribute throw far less light than commercial transactions upon monetary institutions and practices.

It is necessary to add that the author of this book does not inspire very much confidence, in the first place because his ideas of the theory of money are of a childish *naïveté*, and in the second because he seems occasionally to be quite as much interested in the good fame of Ireland as in a dispassionate research into his subject.

R. G. HAWTREY

Economic Annals of Bengal. By J. C. SINHA. (Macmillan & Co. 1927. Pp. vi + 301. 12*s.* 6*d.*)

Early European Banking in India. By H. SINHA. (Macmillan & Co. 1927. Pp. iv + 273. 12*s.* 6*d.*)

MR. J. C. SINHA'S *Annals* deal with the economic history of Bengal between 1757 and the year when Lord Cornwallis ceased

to be the Governor-General. The political history is well known, but hitherto little attention has been paid to the economic history—partly because it is less attractive at first sight, and partly because it is more difficult to obtain the necessary data. Certain aspects have, of course, been studied, especially where the economic conditions exercised a direct and obvious influence upon the political conditions.

A really comprehensive study has yet to be published, but in the meantime Mr. Sinha has produced a very useful and readable book. He does not pretend to cover the whole economic life and organisation of the province, but deals rather with those special economic problems and troubles which arose out of the anarchy before and after the battle of Plassey. Thus he assumes that the reader is conversant with the type of economic organisation which normally existed at that time in Bengal and elsewhere.

The first chapter is an introduction to the main thesis, and sketches very briefly the economic condition of Bengal during the half-century preceding Plassey. It calls for little comment except on two points. One is inclined to think that the author does not emphasise sufficiently the breakdown of good government with the concomitant growth of unchecked corruption throughout the province. Further, he asserts that the Maratha invasions did not cause very serious economic loss to the country. His line of argument entirely neglects the indirect losses, which must have been much greater than the direct ones. For the rest there is much useful material.

The period immediately following Plassey up to the time of Hastings' appointment as Governor-General is well treated, and considerable attention is devoted to currency problems. There is also an interesting discussion of the economic drain from Bengal and how it was affected. This is very difficult to treat quantitatively, but the author has marshalled his facts well and has shown great caution in handling them.

The remaining chapters deal with the administration of Hastings and Cornwallis. The same care is shown in the documentation, and the author is to be congratulated upon the fairness which he displays throughout the whole book, which ought to be exceedingly useful to all interested in Indian history.

Mr. H. Sinha's book *Early European Banking* deals in fuller detail with the banking and finance of the same period. Part I gives very full details of the Bengal Bank, the General Bank and the Bank of Hindustan. Read in conjunction with the *Annals* it is exceedingly useful. The author has documented

all his statements and has shown considerable discrimination in handling his subject. Part II is not so useful as Part I, and is rather a running commentary on general banking policy and conditions in present-day India. It has little connection with Part I and shows signs of haste. There are, however, some useful facts, chief of which are those which deal with indigenous banking methods.

W. S. THATCHER

Fitzwilliam Hall,
Cambridge.

The Economic History of Rossendale. By G. H. TUPLING. (Manchester: University Press. Longmans, Green & Co., Ltd. Pp. xxii + 274. 21*s.*)

FOR this detailed account of economic activities in the Rossendale valley—which includes the towns of Bacup, Newchurch, Haslingden and Rawtenstall—we are indebted to the inspiration of the late Professor Unwin and the patient industry of the author. Such studies of limited areas are very welcome because, apart from the intrinsic interest of the facts and forces that they reveal, they enable us to check accepted generalisations.

Dr. Tupling's book opens with a fascinating and important chapter in which he draws a picture of a mediæval "forest" area being slowly settled by rent-paying tenants who gained a livelihood by stock-rearing. The importance of cattle in mediæval economy is well brought out. There is also an important section on forest administration, together with numerous sidelights upon the ancient system of settling disputes by means of *ad hoc* juries. But much remains obscure. It seems to be clearly established that in the Rossendale area most of the land was devoted to grazing, and that tillage was relatively subordinate. But, with regard to such tillage as there was, we are not certain of the method by which the villein holdings were cultivated. Whether there was a one-field, a two-field, or a three-field system, or whether all the holdings were made up of separate closes, we do not know. Neither do the documents throw a clear light upon the kinds of grains that were then grown. Among these and many other outstanding questions Dr. Tupling treads with commendable caution; he never allows his imagination to outrun his evidence.

The first five chapters contain as much material for the student of the history of English law as for the student of economic history; and there are a hundred examples of interaction between economic conditions and legal institutions.

As we enter the seventeenth century we are furnished with a detailed account of the repercussion in the English countryside, chiefly among the yeomanry, of the transition from custom to competition, and of the Crown's law-aided struggle to expand an inelastic customary revenue by appropriating some of the economic surplus accruing to its tenants. Dr. Tupling throws out a stimulating hint when he says that the influence which the financial difficulties of the early Stuarts had "in modifying the development of trade and industry, and in moulding the conditions of rural life have not yet been fully explored." Later on—in his chapter on machinery and the rise of the cotton manufacture—Dr. Tupling does well to stress the significance of the existence or absence of custom or usage in connection with the introduction of machinery into, and the development of, the woollen and cotton industries.

Often the main currents of events in the more southerly and south-easterly parts of England either did not touch Rossendale at all, or reached it much belated and in a modified form. The large landowner was always exceptional in Rossendale, and "the effect of the Industrial Revolution was actually to strengthen the position of the small holder." On the other hand, the author establishes for his area certain facts that are confirmatory of the results obtained by other investigators over a wider field. There is, for example, the employment of very young children in the domestic industries; and the fact that before the rise of the factory system parish authorities were in the habit of apprenticing destitute boys to local craftsmen, with results sometimes good and sometimes bad. Dr. Redford's recent conclusions regarding labour migration during the Industrial Revolution are supported by the evidence from Rossendale. Chapters VI and VII together form a wholesome corrective to those facile but inaccurate accounts of the Industrial Revolution which make it appear much more sudden and rapid than in fact it was. There are, however, "thin" places. Comparisons between the domestic system and the factory system after the transition period are too few. The reader should not, for instance, be left to wonder whether the attics, lofts, old barns and other structures which were used as workshops by the eighteenth-century domestic weavers were on the whole more insanitary and ill-ventilated than the general run of early textile factories. Moreover, I incline to the opinion that Dr. Tupling gives rather too little attention to the wage-earners, and to some of the results of innovations and severe industrial depressions. There are but brief references to machine breaking and to the "plug riots" in Rossendale, and not a word

about the Chartist Movement. In short, the work would have been better balanced if more space had been given to the nineteenth century.

Nevertheless, we have here an important book of closely printed, well-documented pages. There is also an elaborate table of contents, as well as a good index, an excellent bibliography of manuscript and printed sources, six maps and seventeen appendices.

ALFRED PLUMMER

Ruskin College,
Oxford.

A Study in Social Economics: the Hunter River Valley, New South Wales. By F. R. E. MAULDON, B.A., M.Ec. (Melbourne: Workers' Educational Association. Pp. vi + 201. 12*s.* 6*d.*)

THIS volume is the ninth of a Workers' Educational Association series of Economic, Political and Social Studies, written in Australia and New Zealand. The series is edited by Mr. G. V. Portus, and contains his now well-known *Marx and Modern Thought.* Mr. Mauldon's book is a regional survey of the Hunter River Valley, one of the most important industrial districts of Australia. The Valley lies about a hundred miles north of Sydney, and runs inland from Newcastle on the coast. The district is both agricultural and industrial. It is rich in coal, and a large mining industry has been built up, while the manufacture of steel and iron has been established on a considerable scale, to say nothing of lesser undertakings. As might be imagined, most of the industrial problems with which larger communities are familiar have appeared in the Hunter River Valley alongside the growth of its industries, and these Mr. Mauldon explains and discusses. The comparatively few running comments and suggestions he makes appear to be reasonable, but the book is almost entirely descriptive. The work is extremely well done. It should serve as a good model for others who are attempting similar surveys, and more of these might very usefully be undertaken.

H. SANDERSON FURNISS

The Modern Development of City Government in the United Kingdom and the United States. By E. S. GRIFFITH. (Oxford University Press. 1927. 2 vols. Pp. 745. 42*s.*)

Municipal Finance. By H. E. BUCK. (Macmillan Company, 1926. Pp. 562. 17*s.*)

Problems in Municipal Government. By A. CHESTER HANFORD. (H. W. Shaw Company. 1926. Pp. 457.)

MR. E. D. SIMON recently reminded us that the study of Local Government need not be dull. Incidentally he included in his delightful book a plea for the organised study of Local Government in Universities in this country. It would not be altogether surprising if some of Mr. Simon's American colleagues were to express sentiments very different from his about the desirability of research. The busy American administrator must be bewildered by the immense output of studies and books by bureaux of research and University departments in his country. The authors of these three books are Americans. Mr. Buck in collaboration with others has prepared a volume on City Finance. We are told that " the work of the New York Bureau of Municipal Research in city government forms the background " of this book. " The aim is to outline a financial system which city governments may adopt and use." Its appeal is therefore limited. It is strictly practical. City treasurers in this country might find much to interest them. Mr. Chester Hanford is assistant professor of Government at Harvard. He has got together close upon " a hundred problems, each of which covers an actual case which has recently arisen or is now pending in a particular American city." These cases are intended to supplement text-books and serve as a basis of classroom discussion for University students of American problems.

The remaining book is of more interest to English readers. Mr. Griffith began his studies of American cities at home, and made use of his opportunities when at Oxford to extend them to this country. In the first volume he describes the development of city government from 1870 to 1920, and in the second volume he discusses the problems raised. The plan adopted by the author presents difficulties. American city government is more easily distinguishable than is English city government from local government in general. City government is, in fact, an American term. It is doubtful how far it is possible to obtain a just view of English city government in isolation from other local government bodies. Again, the scheme of dealing in sections, first with one country and then with the other, makes it difficult to grasp the important threads in the story. The first volume is not easy reading. It is crowded with useful facts. For English readers the sections concerned with America are the most interesting. The author does not gloss over corruption and the spoils system. He gives

the impression, however, that it is largely a phase that has passed, and the general conclusion to which he leads is that American city government, having shed its ugly features, has evolved to a more satisfactory condition than is found here.

In the second volume it becomes apparent that this is very definitely Mr. Griffith's opinion. He contrasts the initiative, rivalry and adventurous local patriotism of American cities with the drab efficiency of English city government. On the one hand, there is readiness to spend, and on the other hand there is the hampering ratepayer's psychology. We may admit the general accuracy of his account of the spirit pervading English city government. Indeed, he might have emphasised more strongly the lack of imagination and the absence of any sign that the problem of the city as a whole, in the present or in the future, engages the serious attention of any important body of the inhabitants. But we need not at the same time admit the justice of his analysis of the causes of this state of things. His chief bugbear is the rating system. He has almost as great a dislike of grants-in-aid. He wants to see English cities "given their freedom." Even if we admit the taxation of site values to be a desirable innovation and regret that English cities have not had the freedom of German cities to buy land, it is still possible to hold that Mr. Griffith lays too much stress upon imperfections in the mechanism. Is it not the case that for some years civic enthusiasm in America has gone into local politics, and that this accounts for the lifeless condition of national politics? Here the contrary is largely true. In England you do your duty in local politics, but you get things done in national politics. Imperfect mechanism does not account for the dismality of English local government. A reform of the rating system will not of itself raise men's minds from the level of gas, water, tram problems to a contemplation of the vision of the beautiful city of the future. But reforms may assist. One line of advance, not stressed by Mr. Griffith and possibly not applicable to America, might be in the direction of "regionalism." The institution of regions gathering together and focussing existing local and county patriotisms and sentiments, and armed with something of the freedom that Mr. Griffith desires, might evoke that spirit of enterprise, imagination and initiative the absence of which is at present so marked.

A. M. Carr-Saunders

NOTES AND MEMORANDA

Railway Ownership of Inland Waterways

The following note is primarily an attempt to suggest how true at the present time is the statement once made by the Royal Commission on Canals and Navigable Waterways in 1909, that "the cases in which railway companies have a more or less strong positive interest in pushing trade upon canals belonging to them are exceptions to the rule." It is not proposed to deal with the practical arguments of the question, which are now old history, but merely to indicate what has been the effect of railway ownership and control on their traffic and revenue since 1888, when statistics from the owners were first collected under legal powers.

Ever since the Report of 1909 a distinction has been drawn between those waterways in the hands of independent statutory companies, those owned, and those controlled by railway companies. The shade of distinction between ownership and control is well expressed by the words and can lead to no ambiguity. In 1905 there were in Great Britain 2,557 miles of independent, 1,049 miles of railway-owned and 218 miles of railway-controlled waterways exclusive of estuaries and open rivers. Among these are over 1,000 miles of unimportant waterways which hardly merit the trouble of record, but even accepting them on equality with others it need hardly be pointed out that the railways control about 33 per cent. of the total mileage. Since 1905 there have been few changes or abandonments that would lead to challenge of these figures.

No recent traffic statistics exist for all these waterways, but if we take those only for which the Ministry of Transport gives figures in the Railway Returns, and omit for convenience the Gloucester and Berkeley Ship Canal as being more a maritime than inland canal, the table on page 667 can be constructed. The sources are the Evidence to the Royal Commission, Volume IV, for the three earlier years, and the Annual Railway Returns for 1925. It is realised that the table has inherent deficiencies in that it merely gives traffic originating and conveyed, whilst the ideal unit would be the ton-mile, and that it refers to no more than 2,461 miles of canals (being the only important portion), but for the broad purposes of the argument perhaps these may be overlooked, as the results do not depend on too nice an adjustment.

TABLE I.

Traffic in thousands of tons on 1,204 miles of Independent and all Railway-controlled and owned Canals in Great Britain

Ownership.	1888.	1898.		1905.		1925.	
	C.	O.	C.	O.	C.	O.	C.
Independent . .	17,269	9,541	17,813	10,496	17,908	9,237	12,586
Railway-controlled	8,640	8,591	9,610	7,295	8,382	4,034	4,792
Railway-owned .	7,015	3,533	5,978	3,311	5,809	2,031	2,549
Total	32,924	21,665	33,401	21,102	32,099	15,302	19,927

C. = Conveyed. O. = Originating.

Without going into percentage details, but taking rather a bold glance at the figures, the points to be made are four. First of all, the three years 1888, 1898, and 1905 show a fairly constant traffic on the whole of the mileage, whereas the 1925 figure shows a considerable decline. The reasons for the general decline are many, but chief among the temporary causes must be included the factor of trade depression. The more permanent causes were classified by the Royal Commission, and it remains but to add motor competition, which hardly began till three or four years after the Commission sat down to its work. The second point is that the independent companies have lost comparatively less traffic than either of the other two classes. The third is that the greater the degree of railway influence, as represented by control or ownership, the greater the percentage decline. The fact is very significant that whilst the independents actually increased their tonnage up to 1905, on 1888 and 1898 figures, the railway-owned show a consistent record of decline over all four years. The fourth suggestion, and the one that shows more clearly the limitations of the statistics, is hardly so marked, but apparently there has been a great decline of non-originating or through traffic in the case of both railway canals and independents. Admittedly we lack a convincing definition of through traffic, but roughly speaking it would seem as though for a reason yet unknown there has occurred something to discourage it. In addition to these four points, which are extracted for special mention, it is clear that the traffic density (tonnage divided by mileage of waterway) is considerably greater on independent than on railway-owned canals, although not greater than on railway-controlled canals.

Traffic conditions are often a very deceptive guide to the

economic situation of transport, and it is only by reference to financial considerations that a check can be made. Obviously a heavy tonnage may go with high expenses, or a growing tonnage with a fall of average rates or increase of expenses. No complete material exists showing the financial condition of British inland waterways more recently than 1905, but by combining the stray 1925 information from the Annual Railway Returns, the Annual Accounts, and certain Conservancy Reports with twenty-two balance sheets kindly lent to the writer by individual companies, the following table has been constructed :

TABLE II

Revenue and Expenditure in thousands of pounds of 992 miles of Independent, all Railway controlled and owned Canals in Great Britain

Ownership.	Year.	Gross Revenue.	Gross Expenditure.	Net Revenue.
Independent . .	1888	879	577	302
	1898	915	695	220
	1905	925	715	211
	1925*	992	776	211
Railway-controlled .	1888	251	98	152
	1898	265	116	149
	1905	244	129	116
	1925	274	173	101
Railway-owned . .	1888	435	339	97
	1898	384	338	46
	1905	394	348	46
	1925	188	300	(Loss) 112
Total . . .	1888	1,565	1,014	551
	1898	1,564	1,149	415
	1905	1,563	1,192	373
	1925*	1,454	1,249	200

* In the 1925 Net Revenue figures are included those for 1925–6 of the Caledonian and Crinan Canals because the accounting year is so fixed. The Gross Revenue and Expenditure columns omit figures for these canals in 1925–6, as they were not obtainable, and hence the Net Revenue does not represent the difference between them.

The information, however, does not include all the canals given in Table I, the omissions being the Worcester and Birmingham, Staffordshire and Worcestershire, Aire and Calder and Glamorganshire, from whom exact material was unobtainable, but there is almost certain ground for the belief [1] that the results would be

[1] Based on private information. It will be remembered that, although statutory companies like railways, the canal companies have not been compelled to supply financial returns to the Government since 1905, except during the period of control. Moreover, few of them are limited liability companies, so that Somerset House cannot reveal any balance sheets. The difficulties of obtaining information are almost insuperable in an industry suffering like canal transport from an inferiority complex.

definitely confirmed if they were included. In dealing with the financial material, moreover, there are at least two limitations. Perhaps most important is the fact that inland waterways frequently derive a large proportion of their revenue from strictly non-transport sources. There are canals like the Grand Junction or Rochdale, for example, which own large amounts of property or investments which do not depend on the existence of the canal for their value. The Grand Junction in 1925 had a gross revenue of £144,650, of which only £68,928 represented tolls. The Rochdale in 1923 sold important reservoir rights to the Rochdale and Oldham Corporations and derived a considerable revenue from the sale. In fact this company would probably pay better dividends could it be disencumbered of its canal. Nor are these isolated instances. The second limitation is that, of the canals included in the table, five were carrying at the three earlier dates: in 1925 only three still carried. In 1921 the Shropshire Union (railway-owned) and Rochdale (independent) were compelled to abandon the trade, but in 1924–5 the Erewash took it up under an old Act of 1845. The effect of this is unduly to inflate the figures of gross revenue and expenditure for the three earlier years in relation to 1925.

There are other qualifications of less note, but the emphasis of the table will be laid on the same points which the traffic analysis yielded. Reference in the first place to the general course of net revenue clearly shows a great decline, which would be all the more convincing were it necessary to have regard to changes in the value of money at these four years. The second result of the analysis is recognition that, apart from the fact that 1888 shows a considerably greater net revenue than any of the other years, independent canals have apparently suffered no financial decline on 1898 and 1905, although the value of the income is much less than before. Thirdly, the fact emerges, with complete confirmation of the traffic statistics, that the greater the degree of railway control the greater the decline on previous years. There are certain practical limitations to the import of the table, but the large railway-owned loss of 1925 is no accident, representing, in fact, the lowest loss made since 1919. In 1920 the railways lost £452,467 on their canals. Just before the War, in 1913, they made a profit of £19,505, but what is clear is that this decline has been going on consistently over the whole period despite the railway contention that it cannot be to their interest to make losses.

Generally speaking the two tables seem to show that the greater the railways' hold on waterways the greater the decline,

but lest it be immediately concluded that this is entirely due to deliberate intent, it must be said that they own certain lengths of canal which could never pay even with the most enthusiastic management, and which the railways would be only too glad to get off their hands. I have in mind such cases as the Kennet and Avon, which the Great Western Railway recently attempted to abandon. But even then there is convincing enough margin to warrant the conclusion that those who have a direct interest in promoting canal traffic have managed to make some profit even in the present bad times, but those who have only a partial or even no interest have suffered a great decline.

Divided and partial railway ownership of routes and lack of co-ordination with other forms of transport have been among the contributory factors in the decline of inland waterways. Whether or not there is economic justification for the great reconstruction schemes outlined by the Royal Commission, there is no doubt whatever that co-operation and unified ownership would be at least a practical step towards the solution of one side of the greater transport problem. The Railways Act 1921 was an attempt, among other things, to look at railway transport from a rational point of view. Cannot we hope that the fundamental principles embodied in this Act shall one day be applied not only to canal transport, which is perhaps one of the minor methods in use to-day, but to the transport system of the country as a whole?

C. D. CAMPBELL

Manchester University.

THE POPULATION CONFERENCE AT GENEVA

THE World Population Conference held in Geneva at the beginning of September was attended by members of some thirty different nations, and the programme included contributions by biologists, statisticians, economists and administrators such as M. Albert Thomas. It is the case that the English-speaking representatives played the predominant part, which may be attributed to the interest now displayed in this country in the problem of quantity of population, in America in migration and in both countries in eugenic questions. It is also true that the biological aspect received most attention, which is due no doubt to the progress now being made in research into various fundamental questions. The interestng papers by Professor Fairchild on Optimum Population and by M. Thomas on Migration aroused animated if not very enlightening discussions. The discussions of biological problems, however, showed that modern views

regarding certain fundamental matters are of no little general interest and importance.

Taking fertility as an example of such a fundamental problem, it is generally agreed among statisticians that the variations in the birth-rate observed over a long period and the differences noticed as between different sections of society at any one time accord with what is known as to the prevalence of the habit of family limitation. Biologists, on the other hand, while not committing themselves to any explanation of these phenomena, are concerned to point out that, little as we still know about the extent to which fertility is influenced by environmental factors, a constant fertility cannot be assumed. Research has revealed the existence of vitamine E, which has a bearing upon fertility, and other experiments demonstrate the effect of diet and of crowding upon fertility. It follows that the possibility is not shut out that changes in diet over a period of years might affect fertility and that differences in diet might be responsible for differential fertility as between different sections of the population with different food habits. So much emerged from Dr. Crew's and Dr. Pearl's papers and the discussions which followed them. In the course of a discussion following a paper on differential fertility most interesting communications were received by representatives from Sweden, Germany, Holland and Italy. It would appear that since the war differential fertility has turned definitely in favour of the higher economic classes in Stockholm, and that in Germany and Holland the fertility of the lower economic classes is now but little superior to that of the higher classes. In this country and in Italy, however, the advantage is still markedly with the lower economic classes. It thus seems likely that the tendency under post-war conditions is towards a narrowing of the gap between the classes, and it is possible that the pre-war situation may in some places become reversed.

To the discussion on the results of differential fertility an important contribution was made by Mr. Haldane. He pointed out that, assuming the more successful classes to be possessed on the average of a biological endowment different in some respects to that possessed by the less successful, it does not necessarily follow that the relative failure of the former to reproduce themselves will result in a rapid diminution of the prevalence of these specific qualities. What happens will depend upon the mode of inheritance of these qualities, and it can be shown in the light of modern investigations that, if, as is probable, these qualities are usually complex and not of the nature of simple dominants, the result upon the biological composition of the

population as a whole of the failure of the higher classes to reproduce will, even in the course of several generations, only be small. This demonstration certainly takes the sting out of the alarmist prophecies of race deterioration as a result of differential fertility. On the other hand, Mr. Lidbeter's paper, which was one of the most important presented to the conference, showed that the existence of poorly endowed stock raises a problem of great magnitude. He gave the first results of an investigation lasting over many years into the habitual paupers of a certain district. He showed that these persons generation after generation form a segregated intermarrying class, the members of which, in spite of social improvements and increased opportunities, often become chargeable during a substantial portion of their lives and exhibit a high incidence of mental abnormality, disease and crime.

The conference as a whole was highly successful. It represented the first organised attempt to pool information and exchange views with regard to the scientific foundations of the population problem. It was a wise move to concentrate first upon the scientific basis. The decision was taken to form the nucleus of a permanent organisation for the promotion and co-ordination of these studies, and it may be hoped that international co-operation in these spheres may ultimately help towards an agreed international policy in regard to practical problems.

A. M. CARR-SAUNDERS

THE NETHERLANDS BANK, 1926-7

Reports presented by the President and Commissaries, June 1927. (English Edition, Amsterdam, 1927.)

THE Report of the Netherlands Bank 1926-7 draws attention to the difficulty arising out of the instability which the gold points have shown since the war. Formerly the gold points were fixed at a certain level of the exchange rate, and it was only when the rate reached that level that export of gold took place. The cost and duration of transport now change so often that the gold points are continuously fluctuating. Among the causes of those fluctuations are special freight arrangements, saving of interest by air transport, and reduction of insurance fees. The Direction desires to raise the question whether the central banks ought not to combine in taking up the study of this matter.

A total of Fl. 8,2 millions of gold was shipped during the period under report (April 1, 1926–March 31, 1927). In order to

prevent gold shipments the Netherlands Bank bought and sold in the exchange market (maximum foreign exchange holdings Fl. 225,6 millions, minimum Fl. 169,0 millions). As the outflow of money, due to the higher rates of interest abroad, was furthered by foreign loans placed on the Amsterdam Bourse, the rate for loans on collateral was raised in February 1927 by ½ per cent. in order to give a warning to the market. The discount rate remained unchanged throughout at 3½ per cent.

Mention is made in the Report of the credit placed at the disposal of the Banque Nationale de Belgique in connection with the stabilisation of the Belgian currency. Several central banks (those of England, U.S.A., Germany, the Netherlands, France, Switzerland, Sweden, Hungary, Austria, Italy and Japan) participated in this action, the administration of the credit being assigned to the Netherlands Bank.

As to the discount market, the Direction states that the development has continued satisfactory, thanks to the low rate of interest and the activity of the firms which accept, buy, and sell bills.

In April 1927 the Netherlands Bank placed foreign banking houses, which have taken the form of a Netherlands firm or company, on the same footing as the internal banks (including the three acceptance houses), as far as the eligibility for re-discount of their bills is concerned. They have been admitted to the arrangement of April 1922,[1] so that now all incorporated banks are sure that their acceptances arising out of foreign transactions—if they are self-liquidating prime bankers' bills—are as a general rule eligible for re-discount. Other acceptances can also be declared eligible, but in this case the Netherlands Bank must be consulted before the paper is put into circulation.

Another fact of great importance for the development of the Amsterdam discount market is the resolution of the Netherlands Bank, taken a year ago but only recently published, to include bills in the collateral on which, under certain conditions, credits are granted. Thus some of the principal bill brokers are able to have recourse to the central bank in this form, which, unlike re-discounting, can be used at any time for short terms.

On the money market loans with bankers' acceptances as collateral are gaining in importance. Several lenders, who formerly restricted themselves to "prolongation" (one-month loans on collateral of shares and bonds), now give call loans on bills as well; the latter are more liquid and save the brokers' commission.

[1] Mention was made of this arrangement in this JOURNAL of June 1926, p. 324.

The Committee appointed by the Government to advise on the admission of foreign loans has published its report. It calculates the total of foreign issues in Holland at

49·9 million guilders in 1924,
126·8 ,, ,, in 1925,
293·8 ,, ,, in 1926,

and further gives proposals for the Government control of stock-jobbing.

The Dutch Stock Exchanges had been almost wholly free from legal regulation. The stock-jobbers had themselves created organisations which make rules for Bourse transactions, for admission of shares and bonds to the official price list and for publication of quotations. At the outbreak of the war the Stock Exchanges were closed. In order gradually to return to normal conditions the Stock Exchanges were placed under control of the Minister of Agriculture, Industry and Commerce (after dissolution of this Department the control was assigned to the Finance Minister), who had to indicate which stocks and bonds were to be admitted to the official price list.

The Commission prefers from the general economic point of view a free international flow of capital; but the importance of the issue and quotation of foreign loans is such that the Government cannot keep aloof.

In the first place international policy may make it necessary that the Government should be able either to order or prevent the admission to the official price list of a particular foreign stock or bond.

Further, Dutch citizens must be protected against misuses in the domain of stock-jobbing. As a general rule this protection can be left to the several organisations. It must, however, be possible to appeal to a higher resort regarding the decisions of those associations. Therefore the Commission proposes to appoint an independent committee (consisting of the President of the Netherlands Bank, the President of the Amsterdam Chamber of Commerce, a nominee of the Finance Minister and, with only an advisory vote, the President of the Amsterdam Stock Exchange Association (Vereeniging voor den Effectenhandel), which is to decide in the last instance on questions about :

(1) Refusal of an association to admit a stock or bond to the official price list;

(2) Refusal of an association to authorise publication of quotations.

In order to prove that it is in practice possible to contest the

decisions of the organisation, the Commission cites the case of the opposition of the Amsterdam association to the German loans in 1925, when it refused admission to the price list to all German loans issued in Holland because of the insufficient re-valorisation of German pre-war debts. This measure, however, could not prevent the issue of German loans on a large scale.

The Netherlands Bank has, as from October 13, 1927, raised its discount rate for bills and promissory notes and the interest on loans secured by goods by 1 per cent. and the interest on Dutch and foreign securities given as collateral and advances on current account by ½ per cent. The latter had already been raised by ½ per cent. on February 3, 1927.

The present rates are as follows :—

Discount for bills	4½ per cent.
,, for promissory notes. . .	5 ,, ,,
Interest on loans against collateral of Dutch securities	5 ,, ,,
Interest on loans against collateral of foreign securities	5½ ,, ,,
Interest on loans secured by goods . .	5 ,, ,,
,, on advances against collateral on current account	6 ,, ,,

Since the middle of last year the amount of the metal reserve, the foreign bill holding, and the " Various accounts " on the credit side of the weekly report (which largely consist of balances abroad) show a constant tendency to fall, while the credits allotted at home in the form of the discounting of bills and the granting of credit on collateral have almost constantly increased. This points to a continuous outflow of funds—mainly in connection with the granting of large credits to foreign countries—which was responsible for the fact that in the summer of 1927 the high rate of the dollar led to considerable gold shipments to the United States, and that recently the rate of the pound sterling obliged the Netherlands Bank to intervene on the bill market in the endeavour, by releasing large sums in pounds, to keep the rate below the point at which the export of gold to England would become profitable. All this had its reflection on the money market, which gradually became less abundant.

During the last few weeks, in connection *inter alia* with the raising of the discount rate of the German Reichsbank, the above development has become more pronounced, the demand for pounds increased still further, and after the end of September the improvement of the money market was very slight. The Nether-

lands Bank could then no longer refrain from raising the discount rate, which had been postponed as long as possible in the interests of the Amsterdam discount market.

G. W. J. BRUINS

OFFICIAL PAPERS

Imperial Economic Committee. *Report on Marketing and Preparing for Market of Food-stuffs produced within the Empire. Fifth Report—Fish.* (Cmd. 2934. Pp. 83. 6*d*.)

AN important study of the conditions of the fishing trade, whose product has often been taken as a typical case of the instability of " market " prices. There is no evidence pointing to a shortage in the total fish supplies of the world. Several valuable grounds are as yet only partially worked. The limits to the range of fishing are fixed by the extreme perishability of the product, and by the fact that methods of preservation have not been improved equally with those of capture. A fundamental difference between " white " and " pelagic " fish divides the trade into two separate parts; in the British market, the consumption of white fish is relatively increasing, in spite of its higher cost. The problem of a wider market is bound up with that of price stability, since a high level of retail prices results from the present risks. The effect on prices of the inherent irregularities of capture and landing are shown statistically. The principal recommendation is therefore for the institution of research in the methods of preservation; some interesting proposals (*e.g.* the " factory ship ") are considered. In respect of " pelagic " fish, especially the herring, the most important research is into methods of curing. The arguments of the Committee are effectively illustrated by the diagram in the Third Appendix, showing the daily variations in the wholesale price of cod landed at Grimsby.

Home Office. *Licensing Statistics*, 1926. (Cmd. 2913. 3*s*. 6*d*.)

COMPARATIVE tables are given of percentage changes in drunkenness (as tested by convictions) and in exports, railway traffic, prices, employment, strikes, etc. The assumption, however, that convictions correspond to inebriety, " leads to wrong and astonishing conclusions."

Review of the Trade of India in 1926–7. (Calcutta: Government of India, Central Publication Branch. No. 2085. 4*s*. 3*d*.)

THE question of currencies in relation to trade was dealt with in the last Report, and there is less that is of general interest this

year. There are some important changes in the direction of trade in certain articles. The chapter on the balance of trade, and movements of treasure, is a convenient summary.

Reparation Commission. Official Documents, Vol. XIV. *The Experts' Plan for Reparation Payments.* (London: Stationery Office, 1927. Pp. 397. 7*s.* 6*d.*)

THE purpose of this volume is "to afford readers access to the various Reports, Agreements, Laws and other documents which form the basis of the Experts' Plan for reparation payments by Germany." It constitutes a valuable and, to economic students, indispensable handbook. It includes in full the Reports of the First and Second Committees of Experts, with their Annexes; the London Agreements, including the Final Protocol of 1924 and its Annexes; all the documents relating to the New Bank and Currency, the New Railway Company, the Industrial Charge, and the External Loan; and the Paris Agreement of 1925. The documentation comes down to the middle of 1926, and the volume is very fully indexed.

Reparation Commission. Official Documents, Vol. XVIA. *Reports of the Commissioners for the German Railways* (*June* 1, 1927), *for the Reichsbank* (*June* 4, 1927), *for Controlled Revenues* (*May* 7, 1927); *of the Trustees for German Industrial Debentures* (*May* 15, 1927), *and for German Railway Bonds* (*May* 31, 1927). (London: Stationery Office, 1927. Pp. 160. 3*s.*)

International Yearbook of Agricultural Statistics. (Rome: International Institute of Agriculture. Pp. 580.)

THIS edition is prepared on the same general lines as have been adopted since 1922. The figures for area and population of countries; for area, production, and yield of crops; for live-stock; for imports and exports; for prices, freights, and exchanges; and for fertilisers, admit of pre-war as well as of recent comparison.

Rapport van de Commissie van advies inzake de toelating van buitenlandsche emissies. (Report of the Committee appointed by the Government to advise on the admission of foreign issues.) ('s-Gravenhage: Landsdrukkerij. 1927.)

Vereeniging voor de Staathuishoudkunde en de Statistiek. *Prae-adviezen omtrent verbindend-verklaring van collectieve arbeidsovereenkomsten.* (Reports to the Dutch Economic and Statistic Society on the question whether collective labour-contracts should be enforced to outside parties.) ('s-Gravenhage: Martinus Nijhoff. 1927.)

De Javasche Bank, 1926–1927. Verslag van den President (Report of the Java Bank April 1, 1926–March 31, 1927). Weltevreden: G. Kolff and Co. 1927.

Verslag van de Staatscommissie inzake de financieele verhouding tusschen het Rijk en de gemeenten. (Report of the State Commission on the financial relations between the State and the communes.) ('s-Gravenhage: Landsdrukkerij. 1927.)

OBITUARY

Sir William Ashley [1]

Within a year of his death, or even less, Ashley gave no impression of age or of the least failure of powers. For some time before his retirement from Birmingham, after twenty-five years' service there, he was evidently wearying of the academic cycle; but freed from the wheel he threw himself into the work of the Committee on Industry and Trade, which he had joined in December 1924, and—among other activities—took up again one of the riddles of his youth; what was the staple food of Englishmen down the centuries? The necessarily anonymous volumes of the Committee are in our hands, and we can speculate on his share in them, which was certainly great. It is good news that the results of his historical food inquiry are likely to be published. But the loss to the State and to learning of the eight or ten years' activity which it seemed not unreasonable to anticipate when he left Birmingham is lamentable.

The things of the public and learning—it is hard to say which attracted him most, at least in his later career. Learning was the foundation and like many good scholars he had to earn his bread by it from the start—but, as Toynbee's disciple, he must always have seen it related to life. Born in South London in 1860 and educated at St. Olave's Grammar School, he went up to Balliol as a scholar to read history, and got his introduction to

[1] I am greatly indebted to Sir William Ashley's family for personal information about his early career, but I have made no attempt here to deal with him except as economist, historian and public man.

Economics through the Political Economy of the Oxford History School. For four years from his degree he was a coach, until elected a Fellow of Lincoln in 1885. Thence, in 1888, he went to Toronto as Professor of Political Economy; from Toronto to Harvard in 1892 as the first Professor of Economic History in the English-speaking world; from Harvard to Birmingham as the first English Professor of Commerce, in 1901. At all three Universities, but especially at Harvard and Birmingham, he had the heavy work of a pioneer organiser; and his arrival at Birmingham coincided with an outbreak of public discussions on economic affairs in which he took a very prominent part.

During the years of his political activity, those who did not know him were tempted to see in him only the economic adviser of a great party, and to credit him with party interests and convictions which often were not his. A Liberal of the Left, who had met him for the first time, once expressed his astonishment at finding in the "tariff reformer" a concern for social progress and a readiness for social experiment and change which he had associated with men who wore a different label. In fact these things lay behind all Ashley's thought and work. He was by training and disposition a political economist in the proper sense of that now undeservedly neglected term. (It is true that for certain reasons of association he rarely so described himself.)

He got his bent in the seven formative years between graduation and the professoriate. At first a political historian of the school of Stubbs, he came under the double influence of German historical economists and of Arnold Toynbee, whose lectures on the Industrial Revolution were published from his and Bolton King's notes. Toynbee refused to accept Ashley, already a successful coach, as his pupil, but suggested that they should "work together." The result was an historical study of the evolution of wage theories which gave to Ashley, or perhaps confirmed in him, that conception of economic thought as evolutionary and related to changing environments which is stated in six theses in the Preface to his first book.[1] During these seven years he was several times in Germany, and he acquired a mastery of German historical economics then very rare among Englishmen, but he did not—as has often been supposed—study under any German whatever. Much as he used and admired Schmoller's writings, he never met Schmoller until 1902, after his return from America. Once he tried to meet Roscher, but found him out; once he went for a walk with Knies and found him very obscure.

[1] Omitting his Lothian Prize Essay, *James and Philip van Artevelde*.

The first slender volume, barely two hundred pages, of the *Introduction to English Economic History and Theory* appeared in the year of his migration to Canada; its second edition in the year of the move south to Harvard; the second and much heavier volume, *The End of the Middle Ages*, in the next year, when he was thirty-three. Few men have built so substantial and well-balanced a monument so early. Entirely unpretentious, it marks together with Cunningham's weightier but less harmonious structure the conquest of a new field of learning—English Economic History as now understood. The circumstances of his career, combined perhaps with deliberate abstention, kept him from "restoring" it as time went on—which was all to the good. It stands as designed, and both its general lines and its detail are extraordinarily little antiquated after a generation. In recent years he was able more than once, in some review or short paper, to point out how the close documentary research for which he had not had opportunity, and perhaps not inclination, had confirmed some far-sighted conjecture of his based on the imperfect evidence of nearly forty years ago. If the mere learning of the book has been surprisingly little outstripped, in spite of the publication of libraries of fresh records, its utility for students has hardly begun to be impaired. It will not be superseded until a mediævalist arises who can write as well as Ashley wrote at thirty and can move with something approaching Ashley's ease in the fields both of thought and fact.

During his remaining years at Harvard he never lost touch with the Middle Ages, but the volume of *Surveys, Historic and Economic*, which he published in 1900, just before the call back to England, shows the drift of his mind. He reviews the great mediæval books of the 'nineties—Vinogradoff, Round, Maitland, Gross, Inama-Sternegy, Meitzen, Flach, Pirenne. He writes, almost one might think *In Memoriam* of his first master, Stubbs, a substantial study on *The Beginnings of Town Life in the Middle Ages*; but his thought is moving, after only a light halt in the seventeenth century to edit Mun and appreciate Montchrétien, into the eighteenth—Tories and Free Trade, England and America—and beyond it towards contemporary economic questions, trusts, sugar combines, Mr. Smith and the Birmingham Bedstead Alliance, Co-operative Production in England and the Economic Atmosphere of America.

Four years as a professed economist at Toronto, with history reserved for summer resorts in long vacations, had done their work in linking him to the exciting American economic life. Though dubbed historian at Harvard, he was very near to Boston

with its intricate problems of industry race and social adjustment. Movement across the American-Canadian border had provoked constant thought on the future of the two countries. When, after his return to England at forty-one, he became the leading academic defender of Chamberlain's new model fiscal policy, he did so—as he told a young economist who, like himself, was more than half a historian—very largely because he feared that, were nothing done, the economic and then the political absorption of Canada by the United States was highly probable; even more than probable he hinted, when pressing that young man on an evening walk to enlist under the banner of Birmingham.

All this may help to explain what was, at least to historians, the riddle of his career—why after the quick and deserved success of his *History*, which remains to-day the only English economic history available both in French and German (and in Japanese), he did not continue it? Thanks to a combination of knowledge, insight and power of exposition he stood in the first rank of historians. As a general economist he was remarkably many-sided, but somewhat less distinguished. He won for himself a fuller and more immediately useful life by the second move into pioneer organisation and the increasing preoccupation with public affairs from 1901 to 1914. He had wished to return to England. He was a married man with a family, and England had no chairs for economic historians. It is likely, therefore, that he had no regrets. But that is no reason why others should not have them. He never announced a continuation of his history; and he once said [1] that he had found the material for the seventeenth century not sufficiently collected or sifted thirty years ago to enable him to handle it as he had handled the Middle Ages. Nothing could be truer of the material. Yet Cunningham had faced it; and the gain to history of even a tentative handling by Ashley it would be hard to over-value. His partially documented conjectures might have been more accurate and certainly would have been more stimulating than the solemn conclusions of sub-historians who have read all the MSS. bearing on some little thing, and see little else. So far we have few enough even of these.

The *History* ran through its editions, but Ashley, absorbed and fascinated by the modern world, wrote no more history for thirteen years after his return to England. By a curious chance he was invited to Hamburg in 1914 itself, and there gave the historical lectures which, under the perhaps slightly misleading title of *The Economic Organisation of England*, now form very much the best introduction to economic history in the language.

[1] In conversation with the writer.

A master is needed above all for the writing of a great " book of vulgarisation "; and *The Economic Organisation* might be classed with Huxley's *Physiology* or Freeman's *General Sketch of European History.*

The years between had been full of work for Birmingham, the cause, and social betterment. *The Adjustment of Wages* of 1903, " a study in the coal and iron industries of Great Britain and America," though an admirable piece of descriptive and social economics, passed almost unnoticed, because economists and business men were all disputing over *The Tariff Problem* of the same year. In this the severest free trader recognised a fair scholarly and persuasive statement of a case which he might not perhaps accept but could not ignore—least of all if he admitted, as in perfect honesty he was often bound to admit, that for him too the deciding arguments came not from some pure economics but from a political economy. Next year *The Progress of the German Working Classes* proved, with a wealth of reference, that social betterment was in no way incompatible with judicious protection. Like the skilled advocate that he was, Ashley left counsel for the defence the statistically impossible task of showing that without protection there would have been appreciably more betterment.

As public interest under a free trade Government with a ponderous majority shifted a little from tariffs to prices, at the time of that little price rise of the '10's which seemed to us so huge, he came forward again with his *Rise in Prices* and *Gold and Prices* of 1912. This was perhaps the class of economic work for which—as a non-mathematical economist—he was least well fitted. Contrasted with the *Economic Organisation* of 1914 it appears—he would have pardoned the notion—rather like a most versatile journeyman's work placed beside the work of a master. (How many masters of monetary theory have been even average journeyman-historians?) His account of it would probably have been that it was the economist's business to give what he had towards satisfying each emergent public need and guiding an ill-informed public opinion. Those were not the days when every schoolboy knew what a cost-of-living index is and what is the hell of the inflationist. The two little essays were remarkably lucid.

Just before war washed away old intimacies and divided friends, Ashley took the chair of the Economic History Section of the International Historical Congress of 1913 in London. To his great regret Schmoller could not be there; but most nations were well represented, and it was not merely because the meeting was

in London that Ashley was an obvious chairman; his claim had the fullest international recognition. Ten years later, in a Congress at Brussels, he and Pirenne were trying to knit up the ravelled sleeve of friendship among historical scholars.

In a way, no doubt, the war brought him satisfaction, as it did to many who, after studying affairs, were called to share in them. Besides, he was passionately patriotic, an unwarlike imperialist; things which he prized were at stake; and he had something to give. When it was over and he was no longer young, he returned to the academic mill with some groaning—a common thing among dons summoned back from public life in 1919, and since. He had served on a long row of increasingly important committees and had been knighted for his service in 1917. He liked the work. Fortunately for him, Birmingham, of which he was now Vice-Principal, was not too exacting, and he was able to add to his record of service, among others, the Royal Commission on Agriculture of 1919 and the Agricultural Tribunal of 1923. Last came the Committee on Industry and Trade, for which his whole life's work had made him the ideal scholar member. On that he was working almost until his life's end. J. H. Clapham

An old pupil writes:—

Those of us who started our university teaching career under Sir William Ashley will always think of him as a kindly, helpful, yet gently firm academic foster-father. His plan for juniors was as follows: A little, definitely limited, amount of teaching, plenty of time for research, meetings with all the interesting and important folk who came to Birmingham, a summer vacation among the industries of western Germany, take an overseas appointment for a few years if one offers, and do not be in a hurry to get married. At times he fell into moody silences, and would pass us by without a word if we met in the corridors; the mood might last for a fortnight, and then on the next meeting he would take you by the arm, steer you into an arm-chair in his office, balance himself on the fender with his back to the fire, produce cigarettes, and become the inquiring father eager to know how "the book" was progressing.

As a teacher he could apply the Socratic method with great skill, and managed to disentangle with infinite tact the confused language and more confused thinking of foreign students especially. In the weekly seminars or conferences he would fall heavily on any vague sentimentalities of students who in their papers had been soaring off in a leftward direction, but just as the unfortunate victim was beginning to feel he and his ideas were

apparently thoroughly worthless, W. J. would wind up the discussion with half a dozen sentences in which he admitted his cordial agreement with at least some of the reforms advocated by the student. As a lecturer his slow speech and long pauses made it easy for students " to get him all down," and many notebooks must have been verbatim reports. One was never quite sure how much he enjoyed teaching commerce courses; he was proud of being a pioneer in that field, and his handling of such technicalities as goodwill, reserves, premium bonuses, etc. was masterly. But even in a course that dealt with such topics he always seemed to linger most fondly on those sections which dealt with the rise of markets, the theory of price, the history of fluctuations, and other theoretical or historical themes.

To colleagues and students his house was always open. Almost every Sunday afternoon at Edgbaston he gathered in at least a dozen guests for afternoon tea; he was usually in high spirits on those occasions, teased one and all, sang an occasional folk-song, or treadled vigorously on one of those early piano-players which looked like a small harmonium fitted on to the front of a piano. Then three or four of us would stay on for high tea with the family, and for an hour's browsing among the newest works on economic history which had been sent by their authors to the pioneer in the field. If the new works criticised his *Economic History and Theory*—" Don't these clever young men realise," he would remark, " that I wrote that book in the 'eighties? Of course I was often wrong, for we were only just beginning to explore the subject then. The wonder is not that I was sometimes wrong, but that I was ever right."

Like most human beings he was openly delighted at the recognition accorded his work and worth. He enjoyed his work on Government inquiries, and his decision to live in Canterbury was largely determined by his desire to find a spot where he could hear good Church music and yet be within a two-hour train journey of Whitehall. He appreciated the conferment of knighthood, he liked to think he was in charge of the first university work in commerce in the British Empire, and was a little taken aback when I informed him that the University of Adelaide began its commerce courses in March 1902, while Birmingham did not start till the October of the same year.

H. H.

CURRENT TOPICS

WE regret to announce the death of Professor R. A. Lehfeldt, the Society's Correspondent for South Africa. Two recent books by Professor Lehfeldt are reviewed in this issue of the JOURNAL. A notice of Professor Lehfeldt's life and work will be published in the JOURNAL for March 1928.

THE following have been elected to membership of the Royal Economic Society :—

Abrams, M. A.
Allison, J. E.
Amos, E. P.
Anderson, G.
Archer, B.
Arthur, G.
Ashworth, R.
Bacon, R. K.
Banerji, S.
Bateman, J. V.
Beaumont, B. F.
Beldham, H. B. B.
Bharatiya, S. R.
Bober, Prof. M. M.
Brinkmann, Prof. Carl.
Bromwich, P. A. H.
Brown, N. C.
Burnett, E.
Cairns, A.
Cairns, W. J.
Carmichael, D.
Carslake, A. E.
Clack, H. J.
Clemo, J.
Cohen, V.
Cole, G. D. H.
Cooke, H. A.
Crews, R. J.
Dane, A.
Darwish, M. M. el-.
Dastur, M. H.
Dickinson, C. R.
Dixon, S. E.
Doyle, N.
Edwards, W. H.
Eldridge, Prof. J. G.
Eley, G. C. R.
Elliott, Prof. E. A.
Elliott, Rev. W.
Emery, E. A.
Erickson, A. E.
Erulkar, D. S.
Estrada, V. E.
Ethell, J. C.
Ferguson, R. W.
Fitzgerald, A. A.
Fitzgerald, G. E.
Fleming, P.
Flugel, Prof. F.
Fraser, Prof. H. F.
Fuller, W. G.
Gale, C. H.
Gangulee, Prof. N.
Gawthorp, W. R.
Gerred, C. H.
Gregson, R.
Griffith, G. T.
Griffiths, H. N.
Guest, E. G.
Hampton, F. W. P.
Hann, Dr. O.
Hargreaves, F. B.
Harmer, F. E.
Helby, Capt. H. W. H., R.N.
Hemingway, J.
Henderson, T.
Hill, Dr. T. R.
Hinton, Miss M. B.
Hobson, A.
Hodgkinson, T. W.
Hood, J. W.
Hutt, W. H.
Hynd, A.
Innes, R. K.
Johnson, D. D.
Johri, Prof. C. B.
Jones, J. D. R.
Judges, A. V.
Kellie, A. E.
King, W. F. W.
Kitchin, J.
Lal, N.
Lambert, Rt. Hon. G.
Landau, Prof. S.
Lankford, J. R.
Launder, W. G.
Lee, S.
Lloyd, B. S.
Louis, R.
MacKinnon, K. W.
McNair, W. A.
McWillie, G.
Madden, J.
Maher, Miss Amy G.
Margetts, C. J.
Mason, C. S.

Mayman, G. L.
Milman, Brig.-Gen. L. C., C.M.G.
Meeker, J. E.
Mitchell, G. S., Ph.D.
Naess, E. D.
Naismith, H. J.
Noah, H. S.
Notley, F. J.
Parlby, J.
Partington, E.
Polyzoides, A. T.
Pommery, Prof. L. A.
Poulton, C. R.
Prasad, J.
Pugsley, R. W.
Rawnsley, R. G.
Reynolds, W. G.
Reuchlin, H.
Roberts, E.
Round, V. B.
Saunders, G. R.
Scott, J. A.
Scott, R. H.
Sheen, R. C.
Singhal, J. P.
Spitzer, H. Maria.
Stains, W. B.
Steel, J.
Stone, DeLano.
Subramainan, T. K. R.
Sweet, S. F.
Tattersall, Florence M.
Taylor, Miss F. K.
Thomas, D. O.
Thompson, G. F.
Thompson, J.
Thompson, L. P.
Thomson, G. W.
Travis, C. H.
Trevaskis, H. K.
Trodden, L. E.
Tyler, J. E.
Warry, G. M.
Weiss, Prof. F. X.
Weller, G. A.
Wilkinson, M.
Wood, L. R.
Woodrow, G.
Wright, G. R.
Wright, W.

The following have compounded for life fellowship :—

Ashworth, Robert.
Beaumont, Bertrand F.
Cole, G. D. H.
Eliott, Sir Gilbert.
Gawthrop, W. R.
Kitchin, Joseph.
Opie, Redvers.
Richardson, J. H.
Scott, R. H.
Stanners, H.
Trevaskis, Hugh K.
Weiss, Prof. Franz X.

The following have been admitted to Library membership :—

Banco Central de Chile, Santiago.
Labour Party and T.U.C. Joint Library, London.
Servants' of India Society, Poona.
Borough of Fulham Central Library.

We record with regret the deaths of the following Fellows of the Society.

Darling, B.	(elected 1925)
Garvan, Sir John	(,, 1922)
Lehfeldt, Prof. R. A.	(,, 1908)
Pritchard, E.	(,, 1925)

SOME additional copies of Nos. 1, 9, 37, 39, 41–43, 47, 50 of the ECONOMIC JOURNAL are required for the purpose of completing sets. The Secretary of the Royal Economic Society would be much obliged if any Fellows who can spare their copies of these issues would return them to the Assistant-Secretary, Mr. S. J.

Buttress, 6 Humberstone Road, Cambridge. **A payment of 10*s*. a copy** will be made for each copy so returned.

THE following papers were read at the meeting of the Economic Section of the British Association, held at Leeds on September 1–7 this year:—

Rationalisation of Industry (Presidential Address), by Professor D. H. Macgregor.

The Instability of our Economic System, by Professor J. Schumpeter.

Fallacies and Pitfalls of the Non-statistical Economist, by Dr. P. Sargant Florence.

Some Evidence concerning the Influence of Inheritance on Distribution, by Mr. J. Wedgwood.

The Recent Course of Prices, by Sir A. Yarrow and Miss M. Tappan.

Innate Differences and Social Status, by Dr. M. Ginsberg.

The Coal Miners of the Eighteenth Century, by Mr. T. S. Ashton.

The Economic Situation of Agriculture, by Mr. A. W. Ashby.

The Theory of Copartnership, by Mr. C. J. Hamilton.

Prof. Hallsworth was nominated as President of the Section for the meeting at Glasgow next year.

THE Research Committee on Inheritance revised and printed the Questionnaire of which a first draft appeared in the ECONOMIC JOURNAL for March 1927 (pp. 153–4). Copies will be issued to Departments of Economics, and in other ways it will be sought to circulate it among persons who are willing and able to give direct help to this inquiry. It is hoped to obtain sufficient replies to be indicative of some broad facts regarding Inheritance, on which opinion is still vague. Copies of the Questionnaire can be obtained from the Recorder, Mr. R. B. Forrester, at the London School of Economics.

The University of Cambridge will shortly proceed to appoint a Lecturer in the Faculty of Economics, in the room of the late Mr. Lavington. The initial pensionable stipend will be £200, rising by increments to £300, with an allowance of £150 if the Lecturer is not a Fellow of a College. This is exclusive of any income earned as an examiner or as a College Supervisor. Candidates are requested to send their applications, with such evidence of their qualifications as they think fit, to the Vice-Chancellor before February 1, 1928.

PROFESSOR HERBERT HEATON has resigned the Sir John A. Macdonald Chair of Economics and Political Science at Queen's University, Kingston, Canada, in order to succeed Professor N. S. B. Gras in the Chair of Economic History in the University of Minnesota, Minneapolis.

THE first four Special Memoranda, published in collaboration with the London and Cambridge Economic Service, have now been ssued to Fellows, namely :—

1. A. C. Pigou : *The Economic Position of Great Britain.*
2. *Quarterly Bulletin of Statistics*, July 1927.
3. J. M. Keynes and J. W. F. Rowe : *Stocks of Staple Commodities.*
4. *Quarterly Bulletin of Statistics*, October 1927.

No. 5 of the Series, to be issued in February 1928, will consist of the *Quarterly Bulletin of Statistics* for January 1928, and No. 6 of a *Bulletin of Statistics* relating to France, Germany, Italy and Russia.

THE third Economic History Supplement of the ECONOMIC JOURNAL will be published on January 1, 1928.

ERRATUM

BY an oversight of the author the wrong figures were printed in Column IV of the Appendix Table to Professor Pigou's article on *Wage Policy and Unemployment* in the September issue of the ECONOMIC JOURNAL, p. 367. The column is headed : "Rates of money wages divided by Board of Trade index-number of wholesale prices. 1913 = 100." The figures should have been :

1919	1	83	1922	1	132	1925	1	107
	2	86		2	126		2	113
	3	84		3	120		3	115
	4	77		4	114		4	117
1920	1	75	1923	1	112	1926	1	122
	2	77		2	110		2	124
	3	85		3	111		3	120
	4	96		4	106		4	120
1921	1	121	1924	1	105	1927	1	127
	2	133		2	108			
	3	128		3	108			
	4	131		4	105			

The figures in Column V should have been printed as integers without decimal points. The diagram on p. 358 is based on the correct figures.

RECENT PERIODICALS AND NEW BOOKS

Statistical Journal.

Vol. XC. Part IV. *Trade Association Statistics.* E. T. ELBOURNE. A discussion of methods by which Trade Associations have assisted, and may further assist, in creating between competitors relations of a co-operative kind. A main question is the reduction of the secrecy complex, and in this connection a scheme of coding is suggested in detail; others are the mutual organisation of forecasting, of indices of production and demand, of "management ratios," and of "budgetary control." The American Trade Association movement is explained as a typical form of advance in many of these respects. *Pre-war and Post-war Taxation.* D. CARADOG JONES. The inquiry of Sir H. Samuel is brought up to date, with reference also to the Report of the Colwyn Committee. Comparison is sought between the amount and proportion of income paid in taxation before the war and in 1925–6 in the case of (1) an urban workman with family responsibilities, (2) a typical middle-class family, (3) families enjoying higher incomes of prescribed amounts nominally unchanged. Further, it is attempted to find what contribution is made through indirect taxation towards the case of social services by those who directly benefit, especially those at the poverty line. The inquiry is exhaustive, and an important social document. *The World's Stock of Money.* R. A. LEHFELDT.

The Sociological Review.

JULY, 1927. *Sociology and Economics.* P. J. HUGHESDON. *Professional Workers and Organisation.* G. W. THOMPSON. *The Rise of the Danish Peasantry.* P. MANNICHE. Deals with the co-operative movement.

Quarterly Journal of Economics (Harvard).

AUGUST, 1927. *Is there a Biological Law of Human Population Growth?* A. B. WOLFE. A critical study of Pearl's logistic formula. The author is sceptical of the application of rational, as distinct from empirical, formulæ to the growth of human population, in view of many significant factors of human culture. *The Gold-Exchange Standard.* J. L. LAUGHLIN. A historical examination, leading to the conclusion that the error of the gold-exchange reasoning consisted in assuming the quantity theory, instead of the efficiency of redemption, as explanatory of the value of token money. In time, also, redemption for foreign trade purposes only becomes insufficient, and a money suited for large transactions is needed at home. Hence gold-exchange becomes a transitional rather than a special kind of standard. *The Copper Mining Industry in the United States.* F. E. RICHTER. The lateral and vertical organisation of copper shows a great variety of types, and contrasts in

important respects with that of iron and steel. *Germany's Foreign Trade Terms in* 1899–1913. N. MOLODOWSKY. *The American Rice-growing Industry.* A. H. COLE. *Tawney's Religion and Capitalism, and Eighteenth-century Liberalism.* O. H. TAYLOR. A vigorous criticism leads to the conclusion that the leaders of Liberalism, from Grotius to Mill, were not simply the prophets of self-interest.

Review of Economic Statistics (Harvard).

JULY, 1927. *Revision of Curve A, Speculation, of the Index of General Business Conditions.* It is found desirable to modify the present Curve A, so as to make a correction for secular trend; and also so as to exclude from it the series for bank debits. Several reasons are given for the latter change. In addition, the Dow-Jones average of industrial stock prices is replaced by the new Barron's averages for railroads and industrials. The new curve is obtained by taking simple averages of the two Barron's series, the railroad average being measured from a fitted straight line, and the industrial average from a compound interest curve. Little change is required in the series up to 1922; but since then the new curve shows a less marked upward trend, though the record of shorter fluctuations is similar. The new series is therefore joined since 1922 to the old. The elimination of bank debits results in a more regular index of variation. *An Analysis of Bank Statistics for the U.S. (IV). The National Banks,* 1915–26. *The Physical Volume of Production in the U.S. for* 1926. The year was one of extraordinary growth. Mineral and industrial production have established new records, and have been maintained continuously in more than normal volume for the past four years, a record not equalled at any time for which data are available. *Review of the Second Quarter of the Year.*

American Economic Review.

SEPTEMBER, 1927. *Orientation of Economics on Enterprise.* F. B. HAWLEY. A restatement of the ideas first put forward in the author's *Enterprise and the Productive Process* in 1907, and a claim for reconsideration of his scheme as a whole, on the ground that there has been a recent approach to many of its principles. *Does Trade follow the Dollar?* A. P. WINSTON. A study of the trade in railway materials to certain markets gives a negative answer. *Factors affecting the Bargaining Power of Workers in the Glass Bottle Industry.* II. LA RUE FRAIN. An important study of the influence of mechanical devices, which are said to have reduced earnings to the level of semi-skilled workers. *Operating Combinations in Canadian Industry.* V. W. BLADEN. This short note supplies for Canada figures from the Census comparable to those obtained for the U.S. by Dr. Thorp in his well-known monograph on the *Integration of Industrial Operation. Mathematics in Economics and Business Statistics.* W. L. CRUM. *A Salt-Famine in Ecuador.* F. W. FETTER.

Journal of Political Economy (Chicago).

AUGUST, 1927. *Theoretical Considerations relating to Supply.* H. SCHULTZ. Continuing the author's examination of conditions of

demand (October–December, 1925), the relations are discussed between the theoretical cost curve, the accounting cost curve (or particular expenses curve), and the supply curve. The derivation of the *statistical* supply curve remains to be considered. *A Re-examination of the Doctrine of Comparative Costs.* K. SIMPSON. A critique of classical theory based on the question of money as distinct from sacrifice costs, and on the attitude of entrepreneurs to the "total advantage" of trade. *The Entrepreneur in Economic Literature.* C. A. TUTTLE. "The emergence and final differentiation in economic literature of the function of ownership of the business, viewed as an organised unit, as the distinctive function of the entrepreneur." *Investment Activity in the Period* 1910–25. A. G. COONS. *Industrial Relations in the Pottery Industry.* D. KENNEDY. *Effective Regulation of Public Utilities.* C. E. CLARK.

Political Science Quarterly (Columbia University).

SEPTEMBER, 1927. *Political and Social Philosophy of the Carpenters' Union.* E. E. CUMMINS. A study of the attitude of the largest and strongest of the craft unions affiliated with the American Federation of Labour, in view of its influence on other craft unions.

Annals of the American Academy of Political and Social Science (Philadelphia).

SEPTEMBER, 1927. This number deals with various aspects of the question of *Planning for City Traffic.* The general headings are— (1) planning for increased traffic facilities, (2) traffic control, (3) planning to prevent accidents, (4) traffic problems and the modern city plan, (5) city planning and traffic congestion.

Wheat Studies (Food Research Institute, Stanford, California).

AUGUST, 1927. *Reactions in Exporting and Importing Countries to Changes in Wheat Prices.* A study of the general attitude towards high and low prices respectively in Europe and the United States.

SEPTEMBER, 1927. *Survey of the Wheat Situation, April to July,* 1927. The outlook for trade and prices in 1927–28, though obscured by the lateness of Canadian and European crops and uncertain prospects in the Southern Hemisphere, is for a normal wheat year. Carry-overs, especially in Canada, Argentina and Australia, were larger this year than last.

Revue d'Économie Politique.

MAY–JUNE, 1927. *Le problème des prévisions économiques aux États-Unis.* A. AFTALION. A critical review of the systems of Moore, Fisher, Karsten, Holbrook Working, and Harvard. The development of quantitative economics must not, however, be separated from theoretical analysis, and it is necessary to keep in view "non pas deux domaines séparés, mais deux disciplines qui se pénétreront intimement pour leur plus grand progrès à l'une et à l'autre." *La taxation de l'épargne.* UMBERTO RICCI. An analysis of the problem of the "double taxation" of savings, and especially of the argument of Einaudi. The conclusion is that the theory of double taxation is a fallacy. *La Conférence économique internationale de Genève.* R. HOFFHERR.

JULY–AUGUST, 1927. *Observations sur l'intérêt du capital.* G.-H. BOUSQUET. A discussion based largely on the arguments of Marx and Schumpeter.

Revue de l'Institut de Sociologie (Brussels).

JULY–SEPTEMBER, 1927. *L'influence des difficultés économiques d'après-guerre sur la population Allemande.* G. ICHOK. An interesting study of vital statistics in Germany. *L'acquisition du "sens social."* L.-A. FOURET.

Jahrbücher für Nationalökonomie und Statistik (Jena).

JULY, 1927. *Der Ausgangspunkt der theoretischen Nationalökonomie, eine Auseinandersetzung mit Gustav Cassel.* O. CONRAD. A discussion for the purpose of clarifying Cassel's treatment of Land and Capital, Interest and Rent; Cassel's work as a whole being a new departure in economic analysis. *Zur Kritik der Preistheorie.* H. SCHACK. The theory of absolute prices; the psychological theory; the theory of relative prices.

AUGUST, 1927. *Die Ergebnisse der Weltwirtschaftskonferenz.* E. HANTOS.

SEPTEMBER, 1927. *Die Casselschen Gleichungen und die mathematische Wirtschaftstheorie.* E. SCHAMS. A critical examination of the content, and consistency with other assumptions, of Cassel's equations of price. *Diskontopolitik und Preise.* I. KORNFELD.

Weltwirtschaftliches Archiv (Jena).

OCTOBER, 1927. *Zur Theorie der Wechselkurse.* A. MAHR. *Zahlungsbilanz, Kaufkraft, und Wechselkurs.* K. KORANYI. These papers contribute complementary and exhaustive discussions of the theory of exchange as presented by modern authors. *Zum Problem der nordischen Münzunion.* A. NIELSEN. *Die Weltwirtschaftliche Lage im Spiegel des Schrifttums der Weltwirtschaftskonferenz.* K. PRIBRAM. A complete review of the evidence from particular industries, and of the discursive memoranda.

Vierteljahrshefte zur Konjunkturforschung (Berlin).

2 Jahrgang. Heft I. Detailed reference is made to a general upward price trend which, first noticeable in February, had by May provoked money market stringency and a Stock Exchange crisis, although general prices were below those of 1925. Productivity had increased notably and unemployment had declined from $2\frac{1}{2}$ m. to $1\frac{1}{2}$ m.; both had been influenced considerably by the new Rationalisation policy. But satiation of home markets was leading to greater activity in export trades, and still more was expected as a result of the cumulative effects of stabilisation and the economic recovery of European customers.

Sonderheft 3. *Die Agrarkredite.* A study occasioned by the difficulties of German agriculture in 1925–6, and continuing some results already given in issues of last year. This number deals chiefly with real and personal agricultural credit since the currency stabilisation.

2 Jahrgang, Heft 2. At the end of August 1927 the Conjuncture had entered the phase of high activity, and was, in general, approaching a maximum.

Zeitschrift für die Gesamte Staatswissenschaft (Tübingen).

JULY, 1927. *Die Ausgestaltung des Listschen Nationalitätsprinzips durch Eugen Dühring.* Prof. ALBRECHT strongly supports Dühring's emphatic assertion of the truth of List's principle of nationality. Dühring, who was an ardent disciple of List, lays insistence on the fact that he did not overlook the "cosmopolitan" ideas of the classical school, but regarded them as fundamentally abstract as compared with his practical conceptions. Moreover, List only applied his principle to protective tariffs, and thus in effect acted on Adam Smith's axiom that defence is of more value than opulence. *Wirtschaftswissenschaft und Handwerkerpolitik.* G. HALM. *Die Neuordnung der deutschen Arbeitsgerichte.* P. WOLBLING. *Werner Sombarts "Proletarischer Sozialismus."* B. PFISTER. *Edgeworth's Papers.* Prof. AMONN, of Tokio, holds that Prof. Edgeworth was greatly under-estimated, chiefly because of his complicated mathematical methods, but also because he left his conclusions to be drawn by readers. Yet he demonstrated that mathematics have a great value for the highest generalisations, and even for most important concrete problems. He might perhaps be criticised for employing the Differential Calculus in place of the Method of Determinants. The lecture on the "Aims and Methods" of Political Economy is his best piece of work; yet all he wrote had real scientific worth.

Schmollers Jahrbuch (Munich and Leipzig).

JUNE, 1927. *Sombarts Dritter Band.* Prof. SCHUMPETER writes an appreciative review, and declares that Sombart accepts the now generally recognised axiom that the theoretical must be interwoven with the historical method. Although Sombart disclaims Marx, there are many parallels in their work, and Sombart owes much to him. The chapter on types of business organisation is a very enlightening analysis. No less instructive is the section devoted to industrial technique, where Sombart is very optimistic as to probable future reactions on productivity. He also stresses the significance and effectiveness of systems of scientific management. *Karl Mengers Grundsätze der Weltswirtschaftslehre.* O. ENGLÄNDER. *Prinzipien der Wirtschaft.* Dr. STRELLER writes very critically of Berthold Josephy's recent book on Principles, arguing that it is impossible to erect a metaphysical structure equipped only with the tools of logic. Thus, in explaining Interest, it is not enough to say it is the outcome of "economic purposefulness," for this neglects the problem of how Interest is paid. *Friedrich List und die Lehre von den Zollwirkungen.* Dr. SCHOENBECK writes to demonstrate how List's doctrine of Customs Working is confirmed by recent research in the woollen and cotton industries as to the effect on internal prices. Certain points of divergence are indicated and examined. *Die Entstehung der Kapitulationen in den islamischen Staaten.* W. HEFFENING. *Friedrich Nicolais Einflusz auf das deutsche Verlagsrecht.* R. PASSOW.

AUGUST, 1927. *Über die Kriterien und Entwicklung politischer Parteien.* R. MICHELS. *Zur Lehre von der Produktivität.* K. DIEHL. *Zur Kritik des Böhm-Bawerkschen Wertbegriffs und seiner Lehre von der Meszbarkeit des Wertes.* E. CLUTSKY. *Die Stel-*

lungnahme der Arbeiter gegenüber der Gewinnbeteiligung und dem Copartnership-System. Prof. TOTOMIANZ writes an interesting article analysing profit-sharing and copartnership on the basis of the history of individual schemes tried in various countries. He also examines the current attitudes of trade unions and political parties, which are wholly unsympathetic. He concludes that since unions exist to improve the workers' position in the capitalist framework, the balance of wisdom is against their present short-sighted policy. *"Labor Banks" in Amerika.* P. DREY. An exhaustive account of their evolution, with a systematic survey of their present scope, and with special attention to the worker as a shareholder. *Die volks- und betriebswirtschaftliche Bedeutung der Hauptzweige der deutschen Landwirtschaft, und ihre Entwicklung seit der Vorkriegszeit nach der Statistik der Produktionswerte.* W. CLAASSEN. A survey of the various branches of German agriculture constituted mainly of statistical tables illustrating changes observed in 1911–13, 1924 and 1925.

Giornale degli Economisti (Milan).

JUNE, 1927. *Gli investimenti industriali in regime di svalutazione.* LUIGI FREDERICI. An analysis of some of the factors influencing the direction of investment during a period of currency depreciation. *La teoria dell' amortamento dell' imposta, e l'imposta personale sul reddito.* RENZO FUBINI. The first of two articles on the capitalisation of taxation. It is contended that this phenomenon has a much wider application in the field of taxation than has often been supposed. Not only does it appear in the case of differential taxation, but "the imposition of a general uniform tax upon incomes depreciates capital values uniformly, in the first instance—assuming no change in the general rate of interest." *Il Porto di Napoli.* F. MILONE. The conclusion of a long series of articles on the port of Naples. Naples, having lost most of its pre-war importance as an embarkation port for emigrants, is now dependent on the movement of goods. This must ultimately depend on the industrial development of the hinterland, though the lack of raw materials, coupled with other disadvantages, does not afford ground for much optimism in this direction in the near future.

JULY, 1927. *Note sopra un recente esperimento monetario.* ANTONIO VLAM. A brief account of the stabilisation of the Belgian franc. The general results are held to be favourable, but criticism is directed against the unduly high rate at which the franc was stabilised "in a moment of panic, under the pressure of foreign banks and domestic industrialists." *Il Porto di Genova nel* 1925. F. P.

AUGUST, 1927. *Gli investimenti industriali in regime di svalutazione.* GIACINTO MOTTA. A criticism, by one of the leaders of the Italian electrical industry, of the article under the same title by L. Frederici in the June number of the *Giornale. La teoria dell' amortamento dell' imposta e l'imposta personale sul reddito.* RENZO FUBINI. The probable effects of a change in the tax system of a country on the capital values of real estate, plant, securities, etc., are analysed in detail, on the assumption that the basis of the system is shifted from the "real" taxation of the net product of

land, industry, commerce, etc. to the personal taxation of all incomes.

La Riforma Sociale (Turin).

JULY–AUGUST, 1927. *Francesco Isidoro Edgeworth.* ACHILLE LORIA. A very appreciative memoir of the late Professor Edgeworth, who "of all the English economists of the last generation was the one to whom I was linked by the most affectionate memories of devotion and intellectual comradeship." *Le ricerche scientifico-industriali in Inghilterra.* BRUNO FOÀ. A survey of the work of the Department of Scientific and Industrial Research and of the Associations for Industrial Research subsidised out of public funds.

Scientia (Bologna).

OCTOBER, 1927. *La dispersion de l'homme sur la surface terrestre.* A. A. MENDES-CORRÊA. While mainly anthropological, is of considerable interest to economists.

De Economist (Rotterdam).

JULY–AUGUST, 1927. *Termijnhandel te Amsterdam in de 16de en 17de eeuw.* J. G. VAN DILLEN. *Over Accijnzen, I.* J. VAN DER POEL. *Uit de schriftelijke nalatenschap van Mr. N. G. Pierson.* C. W. DE VRIES.

SEPTEMBER, 1927. "*Koopkracht*" *en* "*Credietinflatie.*" T. GREIDANUS. *Over Accijnzen, II.* J. VAN DER POEL.

OCTOBER, 1927. *Een en ander over Balanswaardeleer.* A. J. SAUER. *De bevolkingsmeerdering in Nederland.* F. W. 'T HOOFT. *Een Geldprobleem. De vaste Markenkoers van 4.20 per dollar.* A. J. W. RENAUD.

Indian Journal of Economics (Allahabad).

JANUARY, 1927. Includes the papers read and discussed at the tenth Economic Conference of the Indian Economic Association, in January 1927. The subjects chiefly dealt with are currency and taxation, by representative Indian economists.

APRIL, 1927. An agricultural number. *The Problem of Fractionalisation of Holdings in India.* R. MUKERJI. *Peasant Proprietorship.* P. J. THOMAS. *Some Village Studies.* S. R. DESHPANDE and G. S. GHURYE. *Agricultural Industries.* N. G. RANGA. *Marketing of Agricultural Products.* J. GULERI.

Revista Nacional de Economía (Madrid).

JULY–AUGUST, 1927. *Tres años del Nuevo Régimen Ferroviario.* F. J. ONTIVEROS. *Las Haciendas locales.* A. H. ORTUÑO. *El monopolio del Petroleo.* F. VILLANUEVA. *El problema de la tierra y la doctrina georgista.* F. G. MARISCAL. *Dinámica del cambio de la peseta.* O. F. BAÑOS. This article concludes an important statistical and theoretical investigation on the Spanish exchange. *El Seguro en España.* M. ESPAÑA. *Aspecto comercial del problema de electricidad en España.* F. S. OLIVÉS.

Economic Review (Kyoto).

JULY, 1927. *Economics and Morality.* K. TAJIMA. The application of Confucian ethics to economics. *The Purposes and Substance of*

Taxation. M. KAMBE. Undue importance has been given to revenue as the purpose, and therefore also to money as the substance of taxation. *The Decay of the Samurai Class.* E. HONJO. *The Question of Population in Japan.* N. YAMAMOTO. The positive policies of increasing food supply and employment are to be preferred to negative policies of limitation of growth of population. *The Effects of Shipping Competition on Freight Rates.* S. KOJIMA. In this continuation of his previous article, the author finds an arithmetical determination of the "laying-up point" of tonnage, in terms of the rates of freight. He also considers again some special results of the problem of line as against tramp conditions. *Agricultural Credit in Korea.* S. KAWADA.

International Labour Review (Geneva).

JULY–SEPTEMBER, 1927. *The Evolution of a Wage-Adjustment System.* J. R. BELLERBY. A discussion of the problem of the just wage, and of the machinery required to work it out. An initial distinction is made between the "just" wage as the "point to march on" and the "most beneficial" wage, since at any time it may not be expedient to attempt to reach justice in one stride. The author considers that economic justice is to be worked out, like other forms of justice, according to the development of a community sense by continuous administration under competent authority for the purpose. A fundamental distribution is made between those wage disputes which are of the type "wage-earners versus non-wage-earners," since an advance in wages could in such cases be substantially paid out of profits, and those of the type "wage-earners versus other wage-earners," where an advance must come out of prices, or employment elsewhere. In the former case, there should be consistent application of the principle of paying "what the industry will bear;" an increase in efficiency should be accompanied by a rise in wages, since otherwise there will be an excess of output over consuming power, and a depression. (Is there not some confusion here between real and monetary distribution?) In the latter case, the adjustment is more difficult, and requires the preparation of a "Schedule of Skill" for wage differences. This in turn will require some central authority to supervise adjustment for industry as a whole. Particular wages should be moved so as not to conflict with, but where necessary to conform better to, this Schedule. The author's general assumption is that market equilibrium can conform to an equilibrium determined in this way, though he repeats the qualification that "these criteria of justice can do no more than *point the direction* of the desired solution." He concludes with a critical study of existing machinery in various countries.

JULY, 1927. *State Enterprises in Australia.* J. B. BRIGDEN.

AUGUST, 1927. *The Correlation between Seasonal Unemployment and Certain Social and Economic Phenomena.* J. JANKO. The varying effects of seasonal fluctuation in Czechoslovakia; the correlation is worked out in relation to vital statistics and trade disputes.

SEPTEMBER, 1927. *The Christian Trade Union Movement in France.* M. TURMANN.

NEW BOOKS

British.

Benn (E. J. P.). Trade. Benn: 6½". Pp. 80. 6*d.*

Bhatnagar (B. G.). The Co-operative Organisation in British India. Allahabad: Ram Narain Lal. 7", pp. 321.

Bukharin (N.). The Economic Theory of the Leisure Class. Martin Lawrence. 8½", pp. 220.

Burns (A. R.). Money and Monetary Policy in Early Times. Kegan Paul. 9½", pp. 517. 25*s.*

Coyajee (J. C.). The Reserve Bank of India. Calcutta: The Book Co. 7¼", pp. 37.

Cole (G. D. H.). The Economic System; an elementary outline. Longmans. 6½", pp. 90. 1*s.*

Colman (G. M.). Capitalist Combines. Longmans. 6½", pp. 90. 1*s.*

Creedy (F.). Human Nature in Business. Benn. 8½", pp. 345. 12*s.* 6*d.*

Dane (E.). Wages and Labour Costs: a statement of the economic laws and theory of wages. Macmillan. 7¼", pp. 194. 4*s.* 6*d.*

Davenport (E. H.). Railways versus Roads. General Press. 8½", pp. 24. 1*s.*

Fisher (H. A. L.). Paul Vinogradoff: a memoir. Clarendon Press. 8¾", pp. 74. 5*s.*

Gupta (J. N.). The Foundations of National Progress: a scheme of constructive work for an Indian Province. Calcutta. 9½", pp. 282.

Halévy (E.). A History of the English People, 1830–1841. Translated from the French by E. I. Watkin. Fisher Unwin. 8½", pp. 372. 21*s.*

Innis (H. A.). The Fur Trade of Canada. University of Toronto Library. 9". pp. 172.

Iyengar (S. K.). Studies in Indian Rural Economics. P. S. King. 8½", pp. 195. 15*s.*

Jones (A. M.). The Rural Industries of England and Wales: a survey made on behalf of the Agricultural Economics Research Institute. Clarendon Press. 1927. 8½", pp. 123. 5*s.*

Jones (H.). Modern Denmark; its social, economic and agricultural life. P. S. King. 7¼", pp. 83. 2*s.* 6*d.*

Knight (M. M.). Economic History of Europe to the end of the Middle Ages. Allen & Unwin. 8¾", pp. 260. 12*s.*

Leake (H. M.). Land Tenure and Agricultural Production in the Tropics. Cambridge: Heffer. 8½", pp. 139. 7*s.* 6*d.*

Levy (H.). Monopolies, Cartels and Trusts in British Industry. Macmillan. 8¾", pp. 356. 14*s.*

Lewis (E. I.) and King (G.). The Making of a Chemical: a guide to works practice. Benn. 8½", pp. 288. 12*s.* 6*d.*

MACMILLAN (W. M.). The Cape Colour Question: an historical survey. Faber and Gwyer. 8″, pp. 302. 21*s.*

MOND (A.). Industry and Politics. Macmillan. 8½″, pp. 337. 12*s.* 6*d.*

MORISON (S. E.). The Oxford History of the United States. Clarendon Press. 8½″, 2 vols. 32*s.*

RIAZANOV (D.) (Ed.). Karl Marx: man, thinker, and revolutionist. Martin Lawrence. 8½″, pp. 282. 6*s.*

RIAZANOV (D.). Karl Marx and Friedrich Engels. Martin Lawrence. 8″, pp. 224. 7*s.* 6*d.*

SIMONS (A. J.). Holding Companies. Pitman. 8¼″, pp. 192. 10*s.* 6*d.*

STAMP (J. C.). On Stimulus in the Economic Life. (The Rede Lecture.) Cambridge University Press. 7½″, pp. 68. 3*s.*

STEPHENSON (J.). A Statistical Atlas of the World. Pitman. 13″, pp. 137. 7*s.* 6*d.*

STONEHAM, LTD. A Classified Guide to Business and Commercial Books. 8½″, pp. 56. Gratis.

THAKUR (B. T.). Organisation of Indian Banking. Calcutta: Lal Chand & Sons. 8¼″, pp. 469. 21*s.*

TODD (J. A.). The Cotton World. Pitman. 7″, pp. 236. 5*s.*

UNWIN (G.). Studies in Economic History. The collected papers of George Unwin; edited, with an introductory memoir, by R. H. Tawney. Macmillan. 8½″, pp. lxxiv + 489. 15*s.*

VERNON (LORD). Coal and Industry: the way to peace. Benn. 8½″, pp. 40. 2*s.* 6*d.*

WEBER (M.). General Economic History. Translated by Frank H. Knight. Allen & Unwin. 8½″, pp. 401. 12*s.*

WOLFF (H. W.). Co-operation in India. (2nd ed.) W. Thacker & Co. 8½″, pp. 298. 13*s.* 6*d.*

WORSWICK (T.). The Economic Resources of the Empire. Pitman. 7″, pp. 167. 5*s.*

American.

BEMAN (L. T.). Selected Articles on Old-Age Pensions. New York: H. W. Wilson Co. 7¾″, pp. lxxii + 359. $2.40.

COPELAND (M. T.). Problems in Marketing. (3rd revised edition.) Chicago & New York: A. W. Shaw Co. pp. 817. $5.

HALL (L. W.). Banking Cycles. London: Milford. 9″, pp. 173. 12*s.* 6*d.*

JAMES (F. C.). Cyclical Fluctuations in the Shipping and Shipbuilding Industries. Philadelphia: Westbrook Publishing Co. 8¾″, pp. 91.

KILBORNE (R. D.). Principles of Money and Banking. Chicago & New York: A. W. Shaw Co. 8″, pp. 559.

LUNDQUIST (G. A.) and CARVER (T. N.). Principles of Rural Sociology. Boston: Ginn & Co. pp. 484. 12*s.* 6*d.*

MILLER (H. E.). Banking Theories in the United States before 1860. Harvard. 8½″, pp. 240. 11*s.* 6*d.*

Pollak Prize Essays. By R. W. Souter, F. L. Olmsted, C. F. Bickerdike, V. V. Novogilov. Newton, Mass.: Pollak Foundation. 8¼", pp. 131. $1.

SANDERSON (D.). (Ed.). Farm Income and Farm Life: a symposium of the social and economic factors in rural progress. Prepared by a joint committee representing the American Country Life Association and American Farm Economic Association. Univ. of Chicago Press. 9", pp. 324. 15*s*.

French.

BOUSQUET (G.-H.). La restauration monétaire et financière de l'Autriche. Rivière. 7½", pp. 158. 8 *fr.*

CIORICEANU (G.). La dette publique de la Roumanie. Giard. 9", pp. 119. 16 *fr.*

DIVISIA (F.). Économique Rationelle. Préface de M. C. Colson. Doin et Cie. 7", pp. xxxii, 443. 30 *fr.*

FOURNIER (H.). La réforme financière et monétaire en Belgique. Giard. 9¾", pp. 261. 25 *fr.*

MITZAKIS (M.). Le relèvement financier de la Hongrie et la Société des Nations. Les Presses Universitaires de France. 9¾", pp. 418.

TEILHAC (E.). L'œuvre économique de Jean-Baptiste Say. Alcan. 9", pp. 392. 35 *fr.*

German.

BIRCK (L. V.). Technischer Fortschritt und Überproduktion. Jena: Fischer. 9½", pp. 26. 1.10 *m.*

COLLINGS (H. T.). Die Kapitalexpansion der Vereinigten Staaten in Latinamerika. Jena: Fischer. 9½", pp. 24.

COLM (G.). Volkswirtschaftliche Theorie der Staatsausgaben; ein Beitrag zur Finanztheorie. Tübingen: Mohr. 9½", pp. 83. 4.80 *m.*

FÜRSTENBERG (H.). Dreijahre Goldwährung. Berlin: Springer. 9", pp. 73.

HAUEL (W.). Die Besteuerung des Tabaks in Deutschland. Hamburg: Brunnler. 8½", pp. 160.

HECK (K.). Der Aufbau des britischen Reichs. Berlin: de Gruyer. 9½", pp. 152. 6 *m.*

SCHACHT (H.). The Stabilisation of the Mark. London: Allen & Unwin. 8½", pp. 247. 8*s.* 6*d.*

SCHULTZE (E.). (Ed.). Ruhrbesetzung und Weltwirtschaft. Leipzig: Gloeckner. 9¼", pp. 256. 14 *m.*

SUSAT (W.). Über die Beziehungen zwischen Aussenhandel und Volkswohlstand. Kieler Vorträge, 22. Jena: Fischer. Pp. 24.

Italian.

ACERBO (G.). Studi riassuntivi di agricoltura antica. Rome.

ARENA (C). Problemi Italiani del lavoro. Rome, Colombo.

ARENA (C.). Italiani per il mondo. Milan.

CHESSA (F.). La classificazione dei rischi e il rischio dell' impresa. Rome: Tipografia Delle Terme. 7½", pp. 127.

HURRY (T. B.). La povertà ed i suoi circoli viziosi, con prefazione Graziani. Torino, Bocca.

LORIA (A.). Ricordi di uno studente settuagenario. Bologna: Nicola Zanichelli. 7½", pp. 99. 10 *lire*.

RICA-SALERNO (P.). I costi associati nell' odierna organizzazione dell' impresa. Palermo.

ROSSELLI (N.). Mazzini e Bakounine. Torino, Bocca.

PIETRI-TONELLI (A. DE). La Borsa. Seconda edizione. Milan: Hoepli. 8", pp. 353. 18 *lire*.

Dutch.

VAN GENECHTEN (R.). De ontwikkeling der waardeleer sinds 1870. (The development of the theory of value after 1870.) Amsterdam: Uitgevers Maatschappij Elsevier.

VAN LIER (H. J. D.) and LICHTENAUER (W. F.). Het vraagstuk der havenschappen. (The problem of incorporating docks under public law.) 's-Gravenhage: Martinus Nijhoff.

VAN DEN TEMPEL (J.). Macht en Economische wet; een onderzoek naar de beteekenis van economische macht voor de inkomensvorming, in het bijzonder ten aanzien van het arbeidsloon. (Power and Economic Law. An inquiry into the influence of economic power on income and especially on wages.) Haarlem: H. D. Tjeenk Willink & Zoon.

VAN GELDEREN (J.). Voorlezingen over tropisch-koloniale staathuishoudkunde. (Lectures on colonial political economy.) Haarlem: H. D. Tjeenk Willink. 1927.

HOITSEMA (DR. C.). 's Rijks munt 25 jaren in eigen beheer 1902–1927. (History of the State mint 1902–1927.) Utrecht: A. Oosthoek. 1927.

STOKHUYZEN (DR. W. A. F.). Spoorwegpolitiek in Nederland. (Railway policy in the Netherlands.) Roermond: J. J. Romen and Zonen. 1927.

VISSER (DR. C.). Verkeersindustrieën te Rotterdam in de 2de helft der 18 de eeuw. (History of some important branches of industry in Rotterdam during the second half of the eighteenth century.) Rotterdam: Wed. S. Benedictus. 1927.

VLEESCHHOUWER (J. E.). Actieve handelspolitiek, feiten en uitkomsten. (Active trade policy, facts and conclusions.) 's-Gravenhage: Martinus Nijhoff. 1927.

DE WAAL (DR. P. G. A.). Van Paciolo tot Stevin. (Development of book-keeping theories in the Netherlands during the sixteenth century.) Roermond: J. J. Romen and Zonen. 1927.

VAN WINTER (DR. P. J.). Het aandeel van den Amsterdamschen handel aan den opbouw van het Amerikaansche gemeenebest. (The share of the Amsterdam trade in the building up of the American Commonwealth.) 's-Gravenhage: Martinus Nijhoff. 1927.

INDEX TO THE ECONOMIC JOURNAL

VOLUME XXXVII

ARTICLES :—

REVIEWS :—

REVIEWS (*continued*):—

REVIEWS (*continued*) :—

REVIEWS (*continued*) :—

REVIEWS (*continued*) :—

NOTES AND MEMORANDA :—

OBITUARY :—

REVIEWERS :—

REVIEWERS (*continued*) :—